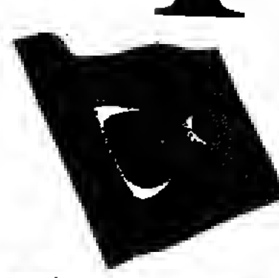
FINANCIAL TIMES



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Why we should worry
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Russian elections
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Japanese AGMs
Manipulated by mobsters
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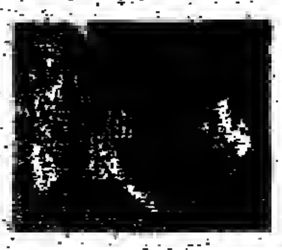

Today's survey
UK Construction Research
Separate section

World Business Newspaper — WEDNESDAY JUNE 12 1996

Britain

THE ROGUE PIECE IN EUROPE'S JIGSAW

In a six-page report in today's paper, FT writers take the temperature of modern Britain and examine the issues behind its current conflict with its European partners

GM halts Indonesia investment over national car policy

General Motors, the world's biggest carmaker, has frozen investment plans in Indonesia until it receives clarification about the government's controversial national car policy. GM has invested $110m in Indonesia, where it owns 60 per cent of a joint venture with PT Garmak, a local assembler. The Indonesian government has granted tax and tariff concessions to PT Timor Putra Nasional, a local company, to develop a "national" car. PT Timor Putra Nasional is controlled by the son of Indonesia's President Suharto. Page 12

Dispute over chairman stalls Ulster talks: Northern Ireland's all-party talks ground to a halt as unionist parties refused to accept the appointment of former US senator George Mitchell (left) as chairman. Day two of the talks, aimed at forging a new constitutional arrangement for Ulster, ended with Northern Ireland secretary Sir Patrick Mayhew and Irish deputy prime minister Dick Spring proposing that Mr Mitchell should take charge while a sub-committee redefined the chairman's role. Page 8

Nato likely to extend Bosnia presence: Nato troops are likely to remain in Bosnia after the December 20 deadline for withdrawal, according to the UK Commons defence committee, which says US troops should remain if others are to stay in the country. Page 8

EU in trade talks with US: European Union leaders arrive in Washington today for bi-annual talks with the US likely to be dominated by trade, especially European concerns about US legislation on Cuba. Page 7

Record sell-off for Portugal Telecom: Portugal Telecom's secondary global offering of 22 per cent became the country's most successful privatisation to date, breaking all records for demand. Page 13; Madrid may slow telecom deregulation, Page 2

Europe warned on jobless: Persistent unemployment in Europe risks fuelling protectionism and social conflict, according to a report to be presented to European Union leaders at their summit in Florence next week. Page 2

China aims to make yuan convertible: China plans to make its currency convertible on the current account before it hosts the International Monetary Fund meeting in Hong Kong next year, its central bank head said. Page 12

Nokia on road to recovery: Finnish mobile telecoms specialist Nokia is recovering quickly from the problems that caused a slump in profits in the first quarter and expects 1996 "to work out in a positive way", chief executive *Jorma Ollila said.* Page 13

Thorn 27% ahead: Thorn EMI announced details of the forthcoming demerger of its music and rental interests while reporting annual pre-tax profits up 27 per cent to £539.1m ($824.8m). Page 13; Lex, Page 12

Bond defaults likely to rise: Defaults by governments on international bond issues are likely to rise towards the end of the decade, having fallen in the early 1990s, a report by international credit rating agency Standard & Poor's says. Page 4

Japanese stores chief to quit: Hiroshi Hidaka, president of Japanese stores group Takashimaya, is to resign at the end of the month following the arrests of e former executive and two company officials on suspicion of paying money to racketeers. Exploitation of e ritual, Page 10

Italy win: Italy beat Russia by two goals to one in a group match in the Euro 96 football championships at Anfield, Liverpool.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,715.21	(+27.34)
NASDAQ Composite	1,238.42	(+6.38)
Europe and Far East		
CAC40	2,137.5	(+16.66)
DAX	2,546.35	(-12.48)
FT-SE 100	3,755.7	(+26.9)
Nikkei	21,817.62	(+98.47)

US LUNCHTIME RATES

Federal Funds	$5\frac{1}{4}$%
3-mth Treas Bills: Yld	5.240%
Long Bond	$86\frac{3}{4}$
Yield	7.084%

OTHER RATES

UK: 3-mo Interbank	$5\frac{7}{8}$%	($5\frac{1}{2}$%)
UK: 10 yr Gilt	$96\frac{3}{4}$	($96\frac{1}{2}$)
France: 10 yr OAT	105.26	(105.15)
Germany: 10 yr Bund	97.93	(97.81)
Japan: 10 yr JGB	98.3259	(98.2205)

NORTH SEA OIL (Argus)

Brent Dated	$18.27	(18.45)

GOLD

New York: Comex		
(Aug)	$385.9	(388.5)
London:		
close	$384.2	(385.85)

DOLLAR

New York: lunchtime		
£	1.5365	
DM	1.5365	
FFr	5.20835	
SFr	1.2675	
Y	109.625	
London:		
£	1.5365	(1.5313)
DM	1.5353	(1.536)
FFr	5.2041	(5.2035)
SFr	1.2685	(1.267)
Y	109.465	(109.085)

STERLING

DM	2.3589	(2.352)
Tokyo close:	Y 108.73	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr16	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£95.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (mland)	Es240	Turkey	*L80,000*
		Lebanon	LL3,000			UAE	Dh12.00

Largest airline alliance created ■ Pledge to sweep away UK protectionism

BA and American agree deal

By Michael Skapinker in London

British Airways and American Airlines yesterday unveiled the world's most powerful air alliance and committed themselves to sweeping eway decades of UK aviation protectionism.

From April 1997, the two airlines plan to co-ordinate their schedules and introduce extensive code-sharing across their networks. Code-sharing allows an airline to sell seats on a partner's flights, enabling it to offer tickets on routes it does not fly.

The airlines, which together account for 60 per cent of UK-US flights and 70 per cent of traffic between London and New York, said they would not surrender any of their routes.

The airlines said their agreement, which they expect to last "indefinitely", was conditional on the US government granting antitrust immunity, allowing them to co-ordinate their operations and marketing more closely.

The UK Civil Aviation Authority said it did not appear thet any UK or European Union regulatory authority had the power to approve or prevent the deal. However, the European Commission said it would be "examining both this agreement and any other alliances concluded by European airlines to ensure their provisions are compatible with treaty competition rules".

The US government has said it would grant antitrust immunity to the airlines only if the UK agreed to conclude a new "open skies" agreement with the US. This would allow airlines to fly freely to any point in the UK, including London's Heathrow airport. The US is also insisting that the UK grant US carriers fifth freedom rights, which allow them to fly from the UK to third countries.

Although UK officials indicated last week that they would oppose the granting of fifth freedom rights, BA said yesterday it was prepared to support a relaxation of the British stance. This would be conditional on the US relaxing the rule which permits foreign carriers to own no more than 25 per cent of a US airline.

A senior BA executive said that although the airline was not taking a stake in USAir, "the British government has a wider agenda than British Airways. Traditionally, it's taken the position that fifth freedoms should be linked to the US changing its investment rules. Although there'e no equity involved in this transaction, we would support that. If the Americans wanted to trade fifth freedoms for a change in investment rules, that would be rational".

An open skies agreement is likely to reduce opposition to the alliance from other US airlines which had been planning to call for their government to veto the deal. Carriers such as Delta Air Lines had said they would oppose the alliance unless it won the right to fly to Heathrow.

UK officials said that while no US carrier would be given the right to fly to Heathrow automatically, the rules governing the allocation of take-off and landing slots favoured new entrants. Under the existing UK-US aviation agreement, American and United Airlines are the only two US airlines permitted to fly to Heathrow.

The strongest opposition to the deal came from Mr Richard Branson, chairman of Virgin Atlantic, the independent UK airline, who said the alliance was not in consumers' interests. But the two airlines said that an open skies agreement would bring new competition to the UK-US market, resulting in a reduction in fares.

The two carriers said they would appoint a joint team to begin co-ordinating BA's 244 weekly *flights between the UK* and the US with American's 238 flights a week between the two countries. Each plans to retain their own brands and identities.

A day for eating words .... Page 11
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Italian markets upset after tax reform proposed

By Andrew Hill in Milan

Mr Vincenzo Visco, Italian finance minister, yesterday called for radical reform of the heavily criticised Italian tax system, including urgent measures to broaden taxation of investment income.

Mr Visco's comments, in a speech to an Italian parliamentary committee, upset Italian financial markets, which have until now welcomed the month-old centre-left government.

The country's stockbrokers' association sent a protest telegram to Mr Romano Prodi, prime minister, Mr Visco and Mr Carlo Azeglio Ciampi, Treasury minister, warning them to avoid making statements which might damage savers' interests while the markets were open.

Mr Visco said there was e need for urgent reform in the field of tax on capital gains. He said the government would seek the support of parliament for harmonisation of the fiscal regime to bring under the tax umbrella "instruments which up to now have escaped tax". In particular, he cited the growing market of derivatives.

"This is a question of great urgency and relevance, because it is unacceptable that a large portion of the income typical of the wealthier classes escapes tax or is subject to reduced tax, while other income, notably from employment, is subject to an important and growing fiscal burden," Mr Visco said.

The Milan Mibtel equity index fell almost 1.5 per cent in the confusion immediately following his remarks, but later recovered those losses after the finance ministry explained that Mr Visco's comments on the reform of capital gains tax had been misinterpreted.

The ministry said Mr Visco wanted to work with stockbrokers and intermediaries to improve the recovery of tax on capital gains, but had not intended to imply that the existing 12.5 per cent tax on interest *income might be extended to capital gains,* which are taxed only indirectly.

Mr Visco, who has been finance minister for just over three weeks, already has come under strong pressure from entrepreneurs in northern Italy to simplify the tax system and reduce the bureaucratic burden. Some small businesses claim that as much as 70 per cent of overall income disappears in taxes and other contributions.

In his speech yesterday, Mr Visco proposed a significant reduction in the overall burden on businesses, including lifting the obligation on employers to pay contributions for each employee, which he said amounted to a tax on new employment. Contributions

Continued on Page 12

US Senate majority leader Bob Dole and his wife Elizabeth hold a change of address form during his 'going away' party on Capitol Hill. *Mr Dole left Congress after 35 years for the harder task of persuading the nation that the White House should be his next residence.* Warmth and wit mark exit, Page 12

Picture AP

Crédit Lyonnais plans loan disposal to stem losses

By Andrew Jack in Paris

Crédit Lyonnais, the French state-controlled bank, is again holding talks with the government about how to stem large losses.

The bank is considering one of the largest securitisation operations undertaken in France. Under the plan, about one-third of a FFr135bn loan it borrowed last year would be hived off into a new company and its shares *sold to outside investors.*

The bank borrowed the money to shore up its balance sheet, and was also allowed to transfer a similar amount in dubious loans to a new company. The European Commission approved the plan in spite of complaints from other banks. This time, the bank and the government are trying to find measures that would avoid reopening the issue of state aid.

The securitisation, which is likely to be finalised over the next few weeks, would do little to reduce the bank's restructuring costs, but would provide it with money in the short term and give it greater flexibility in the management of its balance sheet.

The talks with the government also include a possible acceleration in the sale of assets still controlled directly by the bank and a range of cost-cutting measures, including more job losses to slash operating expenses.

Discussions have accelerated in the last few weeks following a meeting between Mr Jean Peyrelevade, the bank's chairman, and Mr Alain Juppé, the French prime minister, at the end of April.

Mr Peyrelevade warned in March that the bank's financial situation had been severely degraded by poor demand for credit and the fall in interest rates. Meanwhile, some of its own financing was locked in at high rates.

The bank's senior executives contemplated reporting a loss for 1995, but after last-minute negotiations decided to cancel some provisions and publish a small FFr13m net income.

A forecast by Goldman Sachs, the US investment bank, has

Continued on Page 12

American Express to expand in Europe after Visa ban fails

By Motoko Rich in London

American Express, the payment card operator, yesterday disclosed an aggressive international expansion programme in the wake of rival Visa International's decision to drop a proposed ban on European member banks issuing competing cards.

Mr Tom Ryder, president of American Express International, said: "Over the next 10 years most of our business will come from outside the US." Last year 80 per cent of its $16bn turnover came from the US.

He said the group, which has 40m customers worldwide, would cut costs by $250m before the end of the century and aim to increase turnover annually by nearly 30 per cent in international markets.

It would increase the number of credit cards it issues, as well as its traditional charge cards – with balances that must be paid monthly – through banks. Until now, American Express has primarily issued its own cards, mostly charge cards, through an internal distribution network.

Last month American Express said it planned to issue both types of cards through banks in the US. However, e Visa bylaw prohibits its US members from issuing other cards, apart from rival Mastercard. Mr Ryder said American Express would fight Visa's rule.

Visa dropped plans for a similar rule in Europe following a warning from Mr Karel Van Miert, European competition commissioner, that he would "not accept" such a move.

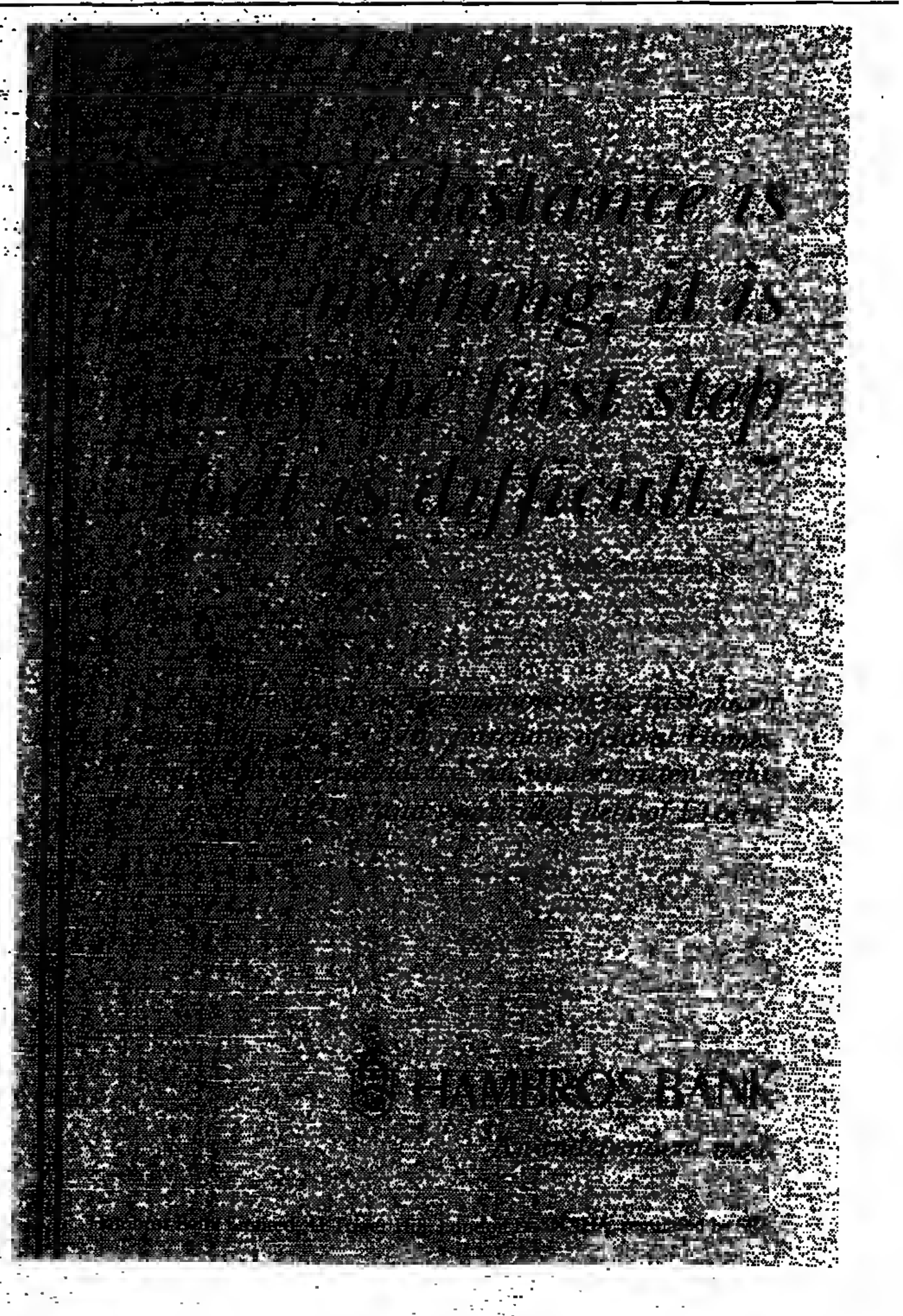
American Express launched Optima, its first credit card, in 1987. That proved a failure, forcing the company to take a bad debt charge in 1991. It relaunched a version in the US in 1994 and began issuing a credit card in the UK last year.

Visa and Mastercard are well established in the credit-card market. *Last year Visa held 54* per cent of the global payment market in terms of transaction volumes. Mastercard had 31 per cent and American Express, 10 per cent.

Visa International yesterday said it was prepared for American Express's expansion. "We expect to compete aggressively in the marketplace with new products," Visa said.

American Express has already established distribution deals with banks in Greece, Israel, Turkey, Portugal, Venezuela, South Korea and South Africa. It has also launched credit cards in Hong Kong and Canada. Mr Ryder said the company issued more new products last year than in the previous 10 years.

He said American Express could offer banks the prospect of *signing up premium cardholders* and merchants who were prepared to pay higher rates to use the cards. He said the average restaurant transaction on an American Express card was 30 per cent higher than those on bank-issued credit cards.



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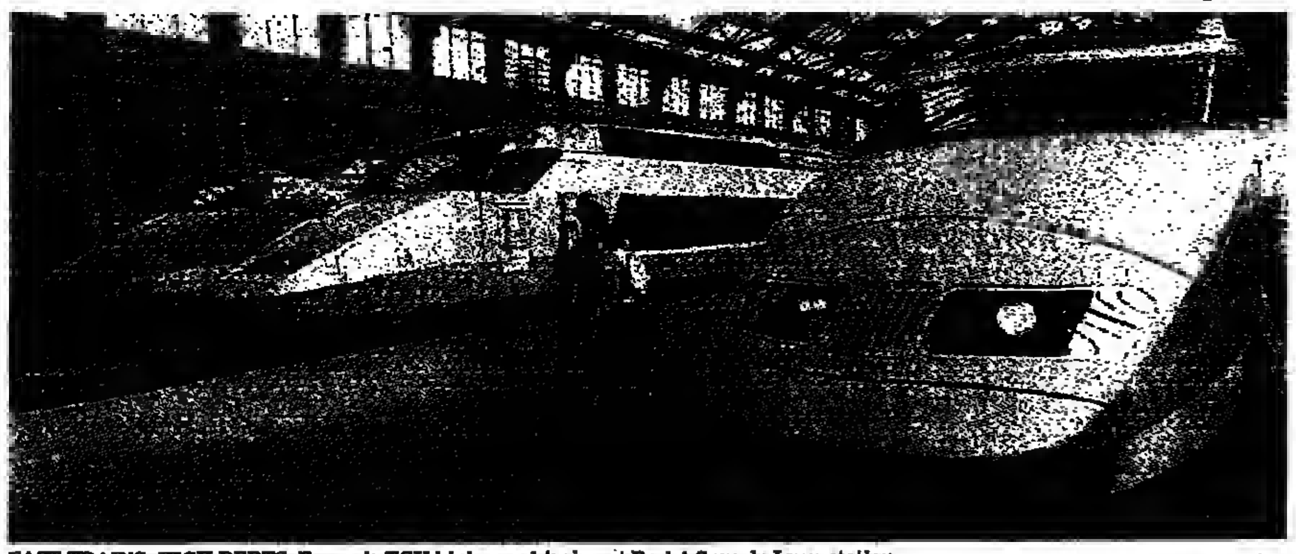
LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

هكذا من الأصل

Paris takes on massive railway debt

By David Buchan in Paris



FAST TRAINS, HIGH DEBTS: France's TGV high-speed trains at Paris' Gare de Lyon station

The French government yesterday announced it will take over FFr125bn ($24bn) of the state-owned SNCF rail company's debts and future responsibility for rail infrastructure.

The state takeover of the SNCF's massive infrastructure-related debt is aimed at giving the loss-making company a chance to make a profit as purely a rail operator, but does not make any productivity demands of the SNCF's 180,000 workforce.

When the government insisted last November on productivity improvements in return for a smaller level of debt relief, rail unions called a national rail stoppage that paralysed the country for 24 days.

Presenting the plan to parliament yesterday, Mr Bernard Pons, the transport minister, took a highly conciliatory attitude towards the rail unions, promising them that the SNCF would stay intact.

He said the new plan reflected the "state's desire to assume fully its responsibility for infrastructure", especially heavy in France because of the investment in high-speed TGV train tracks. "The weight of financial charges [servicing infrastructure-related debt] has become so overwhelming that no internsl management measure would be enough to enable [SNCF] to break even," he told deputies.

Last year SNCF lost FFr16.6bn, of which FFr11.2bn was due to financial charges. However, the new plan still leaves SNCF with FFr75bn of debt from accumulated past operating deficits. Mr Loïk Le Floch-Prigent, the SNCF president, said yesterday this debt level would generate financial charges of around FFr6bn a year.

The plan involves the creation by next January of a new public company to take over the FFr125bn debt, to oversee maintenance of track and to plan and fund new infrastructure. The new company will receive the FFr13bn which the state currently pays SNCF for new infrastructure as well as toll fees from SNCF for use of its track. It will also pay SNCF a fee for maintaining the track.

The European Commission said yesterday that it would want to look at France's rail debt plan, though it had yet to establish a policy on the state aid aspects of rail debt relief in its rail transport white paper expected later this summer. Apart from the UK's rail privatisation, the French plan for financial separation of infrastructure from operations appears to be the most ambitious in Europe.

Mr Pons also announced the government would no longer try to steer the SNCF through five-year plans, the last of which was abandoned in the wake of the 1995 strike.

"The state can no longer dictate from the outside" how the SNCF should be run, Mr Pons said, adding that it would be up to Mr Le Floch-Prigent to produce "an industrial plan" for his company.

Mr Le Floch-Prigent is expected to outline his strategy later this month on how he plans to reverse the long-term decline in SNCF's share of total passenger traffic to less than 24 per cent and of total freight haulage to 8 per cent.

Social pacts urged on Europe to help jobless

By Lionel Barber in Brussels

Persistent unemployment in Europe risks fuelling protectionism and social conflict, according to a high-level report to be presented to EU leaders at next week's EU summit in Florence.

The report by the Competitiveness Advisory Group of top industrialists, trade unionists and academics calls for national "social pacts" between employers, labour and government to counter the threat of disruption.

The group's recommendations are a fillip for Mr Jacques Santer, president of the European Commission, who would like to make his own proposals for a "Pact of Confidence" the centrepiece of the Florence summit on June 21-22.

In its two previous reports, the Group focused on completion of the single market, the need to upgrade second-rate transportation, power and telecommunications infrastructure, and measures to bolster small and medium-sized businesses, the most important source of new jobs in Europe.

With more than 18m out of work in the EU, the group says Europe's job performance is "dismal". A "significant" lack of comparative analysis on socio-economic policy across the EU makes it hard to achieve a consensus on reform or "bench-marking" between countries, it adds. Main recommendations include:

- More flexibility in working hours;
- A "sizeable" lowering of employment costs for the lower-skilled and long-term unemployed. Employers' social security contributions for the lowest paid should be scrapped;
- Wage moderation, though excessive reliance on this tool can produce a serious lack of demand, and risk deflation. The report offers guarded criticism of minimum wages, saying it can hurt those trying to enter the labour market;
- More mobility between companies, regions, and countries to reduce unemployment ("There is clear correlation between low mobility and high unemployment");
- More effort to produce a cost-benefit analysis of EU social legislation foreseen in the Maastricht treaty.

The report also warns that the reduction of budget deficits in the run-up to the planned monetary union in Europe should not be achieved through indiscriminate cuts in public investment, as has often been the case in the past.

It calls for the Maastricht criteria on Emu to be interpreted in a way which takes account of public investment in promoting growth and employment.

EU heads of government established the group 18 months ago under the chairmanship of Mr Carlo Ciampi, the former head of the Bank of Italy and former Italian premier, who has just joined the new leftwing Italian government as treasury minister.

Mr Floris Maljers, former chairman of Unilever, is interim replacement. Other members include Sir David Simon, chairman of BP; Mr Carlos Solchaga, former Spanish finance minister; Mr Percy Barnevik, president and chief executive of ABB of Sweden.

Madrid may slow telecom deregulation

By Tom Burns in Madrid

The new Spanish government yesterday indicated it might not abide by a commitment to deregulate its telecommunications industry by January 1 1998 to allow new operators to compete with the state monopoly Telefónica.

Mr Rafael Arias Salgado, development minister, said the deregulation would be "gradual" and "prudent" and that his principal guideline would be the ability of domestic companies to offer the full range of telecommunications services.

The position taken by the centre-right government is in marked contrast to the one adopted by its socialist predecessor. The socialist government waived the possibility of exercising a five-year transition phase for the telecoms sector to 2003, along with the weaker EU economies such as Portugal and Greece, and said it would meet the fast route deregulation timetable.

The government will eventually withdraw completely from Telefónica and a new basic telephony network linked to the state-owned signal transmission company Retevisión. But Mr Arias Salgado indicated he was not bound by the previous government. "Spain has the right to reserve the 2003 date," he said.

According to the government's revised schedule, Retevisión has first to create a telephony company and then has to undergo privatisation. Mr Arias Salgado said state-ownership of the second operator would be initially reduced to 20 per cent, the level of state-ownership in Telefónica.

Mr Arias Salgado said that Retevisión's network will be technically ready to provide services as early as January next year. He warned, however, that licences to local telephone operators which will provide the Retevisión service, might not be awarded until after the beginning of 1998.

Sweden unveils SKr53bn jobs package

By Greg McIvor in Stockholm

Sweden's minority Social Democratic government yesterday responded to mounting criticism over its failure to curb unemployment by unveiling a package of reforms to cut the headline joblessness rate from 7.6 per cent to 4 per cent by 2000.

The proposals will cost around SKr53bn ($5.09bn) to implement over four years and centre on a drive to raise skill levels by creating 130,000 places in adult and higher education.

Tax incentives are to be introduced for small businesses, while public-sector employment is to be offered to the long-term unemployed aged over 55, a measure projected to generate 40,000 jobs in 1997 and 1998.

In addition, the sales tax on new car purchases will be abolished in an attempt to stimulate the motor industry.

Prime Minister Göran Persson said the proposals would be financed from existing budgets without further borrowing and would not affect the government's pledge to reduce the budget deficit to 3 per cent of GDP by 1997 and eliminate it by 1998.

Part of the finance is to come from SKr6bn in dividends from Securum, set up in 1992 to deal with problem credits at Nordbanken.

Among other sources are a 15 per cent increase in tobacco tax, increased vehicle tax and a doubling to 30 per cent of the capital gains tax on national saving funds.

Mr Persson stressed the programme alone would be insufficient to meet the government's commitment to reduce unemployment to 4 per cent.

"We are certain that this will need to be supplemented and changed," he said, adding that the programme would be evaluated at six-month intervals.

The package, agreed with the opposition Centre party and guaranteed parliamentary sopport, received a mixed reaction from the markets.

The decision to cut by 5 per cent the contributions paid by small businesses towards the social insurance of some employees, and the abolition of double taxation of profits, were welcomed by industry.

Report warns that the one-year peace deadline under the accord is unlikely to be met

Bosnia falls short of Dayton terms

By Laura Silber in Belgrade and Bruce Clark and London

George Mitchell, ICG head (left) and Flavio Cotti, OSCE chairman

Bosnia's situation still falls short of the conditions laid down by the Dayton agreement for the holding of free and fair elections, according to a report released yesterday by a group of distinguished personalities headed by former US Senator George Mitchell.

The report* by the International Crisis Group, whose other members include former Prime Ministers Michel Rocard of France and Malcolm Fraser of Australia, also warns that lasting peace in Bosnia will not be achieved in the one-year deadline set by the Dayton accord.

The ICG does not call explicitly for the postponement of the Bosnia-wide elections now scheduled for September, but its release will sharpen the international debate on whether they should take place.

The US administration, clearly impatient for the elections to proceed as planned, is understood to be putting strong pressure on the Organisation for Security and Co-operation in Europe, the body that will oversee the ballot, to certify that polling can proceed.

However, Mr Flavio Cotti, the Swiss foreign minister and current chairman of the OSCE, has apparently been resisting US pressure to play down the shortcomings of the peace process.

The issoe will be debated hotly at an international conference in Florence tomorrow which will review the peace process, and it will also be in the background at this week's meeting of Nato defence ministers in Brussels.

Mr Nicholas Hinton, the ICG's president, said yesterday the group "was in favour of going ahead with elections as soon as possible" but only on the understanding that urgent action was taken to ensure a level playing field.

The report calls attentioo to repeated and consistent violations of the Dayton agreement by all sides in the conflict. The parties had failed to comply with their obligation under the accord "to recreate as quickly as possible normal conditions of life" in Bosnia.

The study warned that "even on the most optimistic forecast, reconciliation and the creation of a lasting peace will require a longer period of time" than the one-year "window of opportunity" that Dayton was supposed to provide.

"Harassment, intimidation, persecution and discrimination on account of ethnic origin, religious belief and political opinion continue to take place unabated in both entities," says the report, referring to the Serb republic and the Moslem-Croat Federation which make up the Bosnian state.

While the Bosnian government had made some arrests of persons suspected of committing atrocities, the "most notorious war criminals" – Bosnian Serb leader Radovan Karadzic and his military commander, General Ratko Mladic – were very much at large.

The total absence of trust between the former warring parties was also highlighted yesterday by last-minute problems that arose at negotiations in Oslo over a regional arms control agreement.

The Moslem-led Bosnian government refused to sign the treaty in protest against the treatment of Republika Srpska as an equal partner.

Observers said the disputs over an agreement which had largely heen agreed reflected the Sarajsvo government's deep reluctance to accept the principle that the Serbs should have their own area within Bosnia, enjoying wide-ranging self-rule.

However, ths Croats now appear to have accepted the existence of ths Serb entity, bscause thsy helieve it will help cement their own territorial claims within Bosnia.

An independent six-month review of the Dayton Peace accords, from ICG, 3 Catherine Place, London SW1E 6DX

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THE FINANCIAL TIMES

Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

GERMANY:

Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:

Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254. Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753 Commission Paritaire No 67808D.

SWEDEN:

Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Ditz to quit as Austrian economy minister

By Eric Frey in Vienna

Mr Johannes Ditz, Austria's economics minister, who has been frustrated at the slow pace of deregulation, said yesterday he would step down at the end of the month.

Mr Ditz, who had been economics minister just over a year, is the main finance and economics expert of the conservative People's party, the junior partner in the governing coalition. However, his party has becsme preoccupied with conservative social issues rather than pushing free-market policies in recent months, and he received little support when he called for more liberal shop-closing hours and a cut in the red tape for business start-ups.

Mr Wolfgang Schüssel, the party chairman, and Mr Ditz yesterday dsnied any ideological or personal differences. Mr Ditz said he was tired after 10 years in government and had made up his mind to step down after the December elections.

His departure is expected to weaken the government just as it had recovered from a crisis last year over the budget. Thanks to his close relationship with finance minister Mr Viktor Klima, the coalition overcame the year-long budget stalemate and agreed on the tough measures that are needed to bring the budget in line with the European convergence criteria for monetary union.

According to press reports, Mr Ditz is likely to become general secretary of the Industry Association, a powerful lobbying group.

Chancellor Mr Franz Vranitzky and Mr Klima said they regretted Mr Ditz's decision.

The man tipped to succeed Mr Ditz is Mr Christoph Leitl, the economics councellor in the province of Upper Austria. Mr Leitl is also an advocate of free-market policies and has implemented Austria'a most liberal shop-closing regime in his province.

Mr Ditz, 44, was widely considered a pioneer of reform in Austria's often sluggish economy, notably pushing for privatisation and reform of the heavily regulated electricity market.

EUROPEAN NEWS DIGEST

German shops to open longer

Germany's trade unions and retail associations yesterday sharply protested against an unexpected decision by Chancellor Helmut Kohl's governing Christian Democrats (CDU) and Christian Social Union (CSU) to liberalise shopping hours, ending months of procrastination and bringing Germany into line with several other European Union countries.

The decision, made during a meeting of the parliamentary faction of the CDU/CSU in Berlin, means that weekday shopping hours will be extended by 90 minutes to 8pm while Saturday shopping will be extended by two hours to 4pm. Bakers will even be allowed to bake on Sundays. However, Sunday will still remain sacrosanct in most other cases.

The states, however, will retain discretionary power to extend Saturday shopping by a further two hours. The agreement by the parliamentary faction was immediately welcomed by the liberal Free Democrats, Mr Kohl's junior coalition partners, who had long campaigned for a change to a law dating back to 1956. It is expected to be passed by the Bundestag next week. *Judy Dempsey, Bonn*

UN resumes Cyprus peace talks

Mr Boutros Boutros Ghali, United Nations secretary general, met Mr Glafcos Clerides, the Greek Cypriot leader, in Geneva yesterday as part of renewed diplomatic activity aimed at re-uniting the divided island.

The UN is acting as go-between in the search for "common ground" to enable the Greek and Turkish Cypriots to resume direct negotiations, broken off in October 1994.

Mr Boutros Ghali met Mr Rauf Denktash, the Turkish Cypriot leader, last weekend in Istanbul and the new UN special representative on Cyprus, Mr Han Sung-Joo, plans to visit the island later this month. Cyprus has been divided since a Turkish invasion in 1974. UN-led efforts to reunite the island as a federation of the two communities have so far failed to produce results. But Cyprus's application to join the European Union and renewed tensions, which surfaced recently in the shooting of a Greek Cypriot soldier, have given the diplomatic effort new urgency. *Frances Williams, Geneva*

EU set for TV quotas clash

EU culture ministers agreed yesterday not to impose binding quotas on broadcasters on the amount of European-produced programming they must screen, but set themselves on a collision course with the European parliament which could delay adoption of new European broadcasting rules.

The European parliament in February backed demands from Mrs Luciana Castellina, Italian chairman of parliament's culture committee, for legally enforced quotas for broadcasters. Parliament also voted for quotas to be applied to new services such as video-on-demand, and for programmes such as chat and game shows to be excluded from calculations on European content.

Parliament is expected to react with anger at the next reading of the proposals in November, triggering a lengthy "conciliation" process to patch up differences with ministers.

France is firmly in favour of quotas, but last November ministers fudged the issue, with Germany, the UK and Sweden firmly against quotas, and fearing a trade row with the US. They agreed to leave the 1989 directive largely unchanged, though extending it to cover new services such as tele-shopping. *Neil Buckley, Luxembourg*

Halt to Russian debt trade urged

Russia's main creditor banks have called for a halt to trading in the country's debt while they wrap up the details of last November's landmark agreement to reschedule $33bn of debt payments. Deutsche Bank, chairman of the bank creditors' committee, has sent out letters to other creditors asking for an end to secondary market trading from July 1.

That will leave time to sort out who owns what slice of Russia's debt, much of which has been traded around from bank to bank. Russian debt has been trading in the secondary market at around 43 per cent of face value.

Despite the agreement on the rescheduling, some of the larger creditor banks remain extremely nervous about their chances of getting repaid, particularly as Russia is on the brink of an election. The negotiations have dragged out over four years, including a one-year delay while the banks tried unsuccessfully to persuade Russia to abandon its sovereign immunity. *George Graham, London*

Early poll in Russia annulled

Russian electoral authorities in the Far East yesterday annulled an early vote in the presidential elections at a remote military base because of procedural violations.

To save money, the commander of the base did not send a helicopter to pick up election commission officials and the ballots, said Mr Viktor Tsyrfa, the head of the election commission of the Khabarovsk region.

Instead, the commander phoned in vote results to the commission rather than allowing his men to cast ballots in a sealed box as required by Russian law, the Itar-Tass news agency reported.

"We annulled the results of the 'telephone' vote at once and sent a helicopter to the base. It brought back a sealed box with the ballots which will be opened on June 16," Mr Tsyrfa was reported as saying. Voting in outlying regions and on ships traditionally begins before the scheduled election date. Presidential elections in mainland Russia are to be held next Sunday. *AP, Khabarovsk, Russia*

Italy's Northern League suffers

Mr Umberto Bossi, leader of Italy's Northern League, has suffered a setback in his campaign to create a breakaway state after many voters turned their backs on him in local elections.

However, defeat may make him more radical. Mr Bossi said yesterday he now intended to take his fight for an independent northern Italy to the United Nations. League candidates in the northern cities of Lodi, Mantua and Pavia in mayoral contests on Sunday finished a poor third. *Reuter, Milan*

ECONOMIC WATCH

Switzerland's recession deepens

Source: Datastream

The Swiss economy sank deeper into recession in the first quarter of 1996, with a 0.7 per cent drop in real gross domestic product over the year following a 0.3 per cent annual fall in the previous three months. On a quarter-to-quarter basis, GDP has been declining since early last year, according to figures released yesterday by the federal office of economic affairs. Economic activity has been hit by stagnant household spending, government budget cutbacks and sagging construction investment. Exports and the important tourist industry have also suffered from the strong Swiss franc and sluggish economic growth in key European markets, notably Germany. *Frances Williams, Geneva*

■ Dutch producer prices were up 0.5 per cent in April from March and up 1 per cent from a year earlier. March's Producer Price Index was up 0.4 per cent from February.

■ Slovakia's first quarter GDP in real terms rose 7.3 per cent year-on-year, compared with growth of 5.7 per cent in the first quarter of 1995.

The Kremlin leader has created a Russia in his own image with a mixture of successes, half-measures and some terrible flaws. **John Thornhill** reports

Yeltsin's bear has two faces

Every day Mr Georgy Rushansky takes his Polaroid camera and his stuffed reindeer to the central square in the Arctic coal mining town of Vorkuta and makes his living taking snaps of the passers-by.

To a Russian living in a former prison town symbolising the Communist repression of the 1930s, and in a country where the Soviet state controlled everyone's careers and confined their consumer aspirations, Mr Rushansky's simple freedoms are both real and remarkable. "Twenty years ago I could not buy photographic materials. Now I can buy anything I want and I can live the way I want to live," said the 48-year-old bearded photographer.

For such reasons, Mr Rushansky and millions of others will vote for President Boris Yeltsin's re-election on Sunday. In him, they see a politician who has, however imperfectly, pursued the democratic revolution initiated by Mr Mikhail Gorbachev, the last Soviet president, removing much of what one Russian poet called the "menacing idiocy" of the Soviet Union.

Amid the blizzard of media reports about Russian economic hardships, crime, and the brutal war in Chechnya, it is easy to overlook how much Russia has changed since Mr Yeltsin assumed power in 1991.

After seven decades of flawed social engineering, Russia was a bankrupt state of empty shops, warped minds, and shattered illusions. Western diplomats feared desperate refugees would sweep westward and urgently sent food aid to the region.

"We were left with nothing from the Soviet Union, just the hole in the middle of the doughnut," Mr Yeltsin reminded voters on a recent campaign trip.

As Mr Yeltsin celebrates the fifth anniversary of his presidency today, he can perhaps justifiably congratulate himself that his term of office has not been marked by far worse upheavals.

Russia has had to come to terms with the overnight loss of empire, the collapse of an all-pervasive party system which even meddled in the running of dog clubs, and an economic slump which, statistically speaking, has been worse than that endured by the United States in the Great Depression of the 1930s.

Following a messy mass privatisation campaign and a halting financial stabilisation programme, visible signs of regeneration are now evident on Russian streets, symbolised by the rebuilding of the huge Cathedral of Christ the Saviour in the heart of Moscow.

Everyday goods, such as bananas and personal computers, are on sale even in remote Siberian towns, albeit at prices still unaffordable to many Russians. Millions of Russians have had the opportunity to buy their own apartments and travel abroad.

Mr Yeltsin's strongest campaign message is he wants to finish his mission of turning Russia into a "normal" country, where the individual is free to shape his own destiny, where the state serves rather than controls society, where the economy offers people the possibility of self-improvement.

Despite the progress Mr Yeltsin has made, millions of Russians clearly see terrible flaws in his handiwork which have been fully exploited by his rival presidential candidates.

Mr Gennady Zyuganov, the Communist party leader and chief challenger, condemns Mr Yeltsin for moving too far too fast in destroying the simple certainties of the Soviet era, selling off the country's prized assets for a song, and benefiting only a privileged and corrupt few.

In campaign trips around Russia, he echoes the pensioners who have lost their life savings in the hyper-inflation of 1992-93; the mothers who have lost their sons in Chechnya; the school teachers who have lost contact with relatives in former Soviet republics; and the millions of workers who have lost their jobs and status.

"Yeltsin's five years have resulted in the devastation of the country, war in Chechnya, millions of refugees, the impoverishment of the masses and the closure of thousands of factories," Mr Zyuganov claimed in an interview with Pravda newspaper.

"Two or three more years of such politics and we will lose Russia as our native land. The soul aches for Russia."

Mr Zyuganov attacks "Tsar-president" Yeltsin's democratic credentials as a sham for bloodily crushing the Supreme Soviet in 1993 and waging an unconstitutional war in Chechnya, which has killed 30,000 people.

Many of these criticisms are even repeated by some of Mr Yeltsin's one-time supporters from the democratic camp who accuse him of betraying the liberal ideals of 1991 and flagrantly manipulating the media.

Mr Grigory Yavlinsky, leader of the liberal Yabloko faction, and a presidential contender, argues Mr Yeltsin's failed half-measures have discredited the concepts of democracy and capitalism, prompting the fearful Communist backlash.

He believes an unconditional victory for Mr Yeltsin would be almost as frightening as a return to Communism.

"If Boris Yeltsin wins the elections, the oligarchic, monopolistic, criminal, and corrupt regime will grow stronger in Russia. This is very dangerous. This is the legitimation of authoritarian power in Russia," he says.

The Janus-like face of Mr Yeltsin's administration reflects the complex nature of the man himself. It was never likely that a man of his age, whose political reflexes had been moulded by a lifetime in the Soviet Communist party, could ever divorce himself from his past. Mr Yeltsin still appears happiest in the company of his disturbingly illiberal aides. His bodyguard-cum-confidant, General Alexander Korzhakov, publicly muses about postponing the elections, while General Mikhail Barsukov, head of the minimally-restructured KGB, still appears to inhabit the cold war era.

Many fear this hawkish clique will gain the upper hand in a second Yeltsin administration, allowing corrupt cronyism and nationalist authoritarianism to run rampant. A physically-exhausted president will idle away his dying days in his country dacha, leaving his Kremlin aides to carve up the remaining state property and acquiesce in the corrupt fusion of political and financial power. Yet Mr Yeltsin is also an extraordinary individualist with a strong anti-establishment streak. In his autobiography, Mr Yeltsin recalls how he was "always the ringleader, always devising some prank", persuading all his classmates to escape through a first-floor window before their school teacher arrived.

At times, it seems, Mr Yeltsin's only real political philosophy has been to remake the whole country in his image.

Like many of Russia's younger democrats, Mr Yegor Gaidar, the radical former prime minister, reluctantly supports Mr Yeltsin as the only pragmatic means of preventing the return of Communism.

Mr Gaidar questions whether the opportunistic Mr Yeltsin was ever a true democrat and remains sceptical about his intentions after the elections. But Mr Gaidar still holds out some hopes.

"Yeltsin won in 1991, not as a liberal or a democrat but on a very broad coalition of people oriented against Communism," says Mr Gaidar. "I do not exclude the possibility Mr Yeltsin will revert to liberal reforms after the elections."

The chief grounds for optimism are contained in Mr Yeltsin's 127-page election manifesto, a forcefully written call for greater freedom and choice.

Mr Yeltsin's "programme of action" reads like a liberals' wish-list, including promises to devolve more powers from Moscow, develop local government as "schools of democracy", encourage the formation of non-government organisations and even establish rape crisis centres.

On the economy, Mr Yeltsin promises further deregulation, the introduction of a fair tax code, the defence of shareholder rights, an improved welfare state and a balanced budget by the end of his term.

If this manifesto is to be taken seriously, these presidential elections not only concern personality and power but confront a real issue of principle: the role of the state.

"I consider it to be my main task to build a state which will not be the exclusive property of one political force and will not dictate to society how it should live, but will only be its reliable and effective servant," Mr Yeltsin promises.

Such a claim provokes pained laughter among Mr Yeltsin's fellow-presidential candidates, given how he has enlisted every arm of state power for his re-election campaign.

But if Mr Yeltsin maintains the will and energy to implement that promise he would overturn a centuries-old Russian tradition of arbitrary state power.

In doing so, he may yet provide sufficient time for the values of a market economy and a liberal democracy to suffuse the country, providing the basis for a stable society. At present, even the younger democrats concede they represent the interests of a middle class which does not yet exist.

Only a second term will prove whether Mr Yeltsin is such an unacknowledged visionary or simply a slave to power and a prisoner of his past.

Mr Yeltsin has provided the Russian people with overwhelming evidence to doubt him. But the majority may yet conclude that an erratic, instinctively authoritarian 65-year-old former Communist is still their best hope for entering the next millennium as a normal country.

Boris' bons mots

As a radical reformer
Why, after so many years, have we not succeeded in tearing out of our life the roots of bureaucracy, social injustice and abuses? *February 1986*

On Russia's economic upheaval
I know how difficult life is for you at the moment. I feel all your pain, all the country's pain. However, I am sure that this is the pain of a recovering organism. *May 1996*

On his performance as president
I have made mistakes, but I know better than anyone else how to correct them! *May 1996*

On the election
This may be the last chance for us to break out of the vicious circle, to make irreversible the movement of Russia towards democracy and a normal fruitful life. *February 1996*

On the 1991 coup plotters
Leftovers from the old Communist party and government elite, militant nationalists, incompetent collective farm bosses and political adventurers...ghosts of the past, playing to a theatre of shadows. *November 1992*

On his rival Zyuganov
If he came to power and implemented the policies he talks about to Russians, it would be fatal for the Russian economy. *February 1996*

On relations with the west
Those who insist on an expansion of Nato are making a major political mistake. The flames of war could burst out across the whole of Europe. *September 1995*

On increasing tax on vodka
We need to find other sources to fill up the budget so as not to worry people. *February 1996*

NEWS: ASIA-PACIFIC

Fairness above all in Bangladesh poll

Bangladeshi officials yesterday crossed their fingers and promised a "transparent, open, fair and festive" election today, one that offers the country's 57m electorate hope of banishing the bitter political feuding which has blighted one of Asia's poorest states for the past two years.

Diplomats and commentators said they expected a record turnout above 60 per cent for the seventh election since the creation of the state of Bangladesh in 1971 and a close contest between the two chief rivals for power, the Bangladesh Nationalist party (BNP) and the opposition Awami League.

Analysts appeared optimistic that the country's 10-week-old caretaker government had succeeded in its appointed task of setting up a fair and relatively trouble-free poll. Their task will be aided today by 169 foreign observers from 50 countries, including delegations from the European Union, the Commonwealth and the US, in what one official called "the most monitored election in South Asian history".

Proof of the fairness of today's poll is as vital as the result, given that Awami League accusations in 1994 of vote-rigging by the BNP resulted in an escalating two-year political feud. This led successively to an opposition boycott of parliament, a mass parliamentary resignation by the three main opposition parties and a series of violent and economically damaging politically motivated strikes.

The opposition then boycotted a flawed and violent election in February, soon after which Mrs Khaleda Zia, BNP prime minister, bowed to opposition demands that fresh polls be held under a "neutral caretaker government".

Awami League supporter wears a hat in the shape of the party's election logo

The resulting 11-member body, led by President Muhammad Habibur Rahman, has since impressed everyone with the efficiency and neutrality of its preparations for the poll, which promises to be the fairest since that which returned Mrs Zia in 1991 after a period of military rule.

"It's all very new and surprising," said one diplomat. "But it's built up to a considerable new mood in the country that free and fair elections are possible."

Such optimism remains fragile, and was jolted last month when Mr Rahman's sacking of Bangladesh's army chief of staff sparked rumours of a coup and brought tanks to protect the presidential residence. Calm has since prevailed and the campaign has meanwhile charted new democratic territory for Bangladesh, despite strictures which ban campaign motorcades, limit use of loudspeakers and restrict poster sizes.

Such rules, and the tightness of the contest, have forced candidates to forsake traditional mass rallies for educative doorstepping forays through slums and villages. Meanwhile, the neutrally administered state media took the unprecedented step of carrying "meet the press" broadcasts with all four main parties in which independent journalists revelled in posing embarrassing questions of senior leaders.

Security will be tight, with 40,000 troops and a total of 400,000 security personnel on duty around the 26,000 polling stations. Officials said a precautionary drive against "extortionists, terrorists and miscreants" had put 43,000 people behind bars on arms or other charges in recent weeks. Use of most forms of motor transport are banned today, to incapacitate "terrorists".

But rising prospects of a truly free poll in May prompted Bangladesh's powerful and imaginative non-governmental organisations to mount an intensive programme of voter education, dispatching 15,000 trainers to give four-hour seminars on democratic basics to an estimated 10m people in thousands of slums and villages.

The result is expected to be close, with sketchy opinion polls indicating a slight swing towards the Awami League. It polled 30 per cent of the last free vote in 1991 against the BNP's 31 per cent. The BNP's vote is also likely to be diluted by the third-ranking Jatiya party, led by General Hossain Mohammed Ershad, the imprisoned former military ruler, which has decided to contest all 300 constituencies.

Voting is likely to be influenced more by traditional allegiance or disaffection with incumbents than policy considerations. The Awami League and BNP differ only slightly on policy issues, both promising a raft of anti-poverty measures while almost equally endorsing Bangladesh's five-year-old, but now stalled, economic reform programme.

The bigger question will be whether the country's bitter political antagonists, Mrs Zia and Sheikh Hasina, the Awami League leader, prove graceful and accommodating in victory or defeat – the precondition of a stable and effective parliament.

"We're confident the election will pass well," said a senior official. "But then comes the more difficult matter of co-existence."

Mark Nicholson

Japanese banks end jusen impasse

By Gerard Baker in Tokyo

Japan's main banks are prepared to accept a greater financial burden in the controversial Y6,000bn ($55bn) liquidation of the bankrupt housing loan companies, the country's leading commercial banker said yesterday.

Mr Shunsaku Hashimoto, chairman of the Federation of Bankers' Associations of Japan, announced the *volte-face* after meeting senior members of the ruling coalition in an attempt to resolve a long-standing impasse over the issue. But he warned that the banks' extra contribution could be sanctioned only if all private-sector parties to the liquidation also accepted a greater loss.

Such contributions from the banking industry would help stabilise the country's financial system, he said. "Given that contributions are in the public interest, I believe it is indispensable for all financial institutions to join the plan."

Mr Hashimoto and other commercial bankers had previously refused to accept a heavier burden in the bailout of the housing lenders, or *jusen*. But pressure from the government and public seems to have forced them to back down.

Last week, the government's plan for the *jusen* liquidation passed the lower house of the Japanese parliament, but only after the prime minister and other leading figures had issued strong hints that the banks would in the end be encouraged to pay more towards the bailout, a change that would result in a smaller contribution from public funds.

Under the plan which should in principle became law at the end of the parliamentary session next week, the commercial banks that founded the housing lenders would provide Y3,500bn in bad loan write-offs, the non-founder banks would pay Y1,700bn, and the agricultural co-operatives, the other big creditors, Y520bn. The government agreed to pick up the remaining Y685bn, to howls of public protest.

ASIA-PACIFIC NEWS DIGEST

Challenge over Taiwan cabinet

Taiwan's parliament yesterday demanded that President Lee Teng-hui submit his new cabinet list to the legislature for approval. The opposition motion was won by 80 votes to 67 with support from some members of the ruling Kuomintang (KMT) Nationalist party.

Uncertainty remains as to whether the vote is binding on the president but opposition lawmakers say that if Mr Lee does not comply with their request, they will start a boycott which will paralyse legislative business.

Legislators are angry that Mr Lee's refusal to accept the resignation of Mr Lien Chan as prime minister last Wednesday has denied the exercise of their constitutional right to confirm the appointment of the premier. The president claims that Mr Lien is continuing in his post and therefore does not have to face confirmation. The KMT has only a single-seat majority in the 164-seat legislature and whips have little power over disaffected legislators. As a result, political observers maintain the government will have to find some way soon to mollify the opposition. *Laurence Eyton, Taipei*

NZ Labour leader survives coup

Ms Helen Clark, New Zealand Labour party leader, yesterday survived an attempt to force her resignation, only to find Dr Michael Cullen, finance spokesman and a leader of the attempted coup, was elected her deputy. The coup attempt, led by five front-bench spokesmen, followed concerns that Labour, the second biggest party in parliament but faring badly in the opinion polls, will be decimated in October elections.

The MPs were pushing for the appointment of Mr Mike Moore, a populist former leader briefly prime minister before Labour's defeat in the 1991 elections, and who led Labour to near-victory in 1993. Ms Clark led a counter-attack, rallying the party's left wing, trade unionists, women and other supporters behind her.

Dr Cullen yesterday replaced Mr David Caygill, who announced he was standing down. *Terry Hall, Wellington*

Greenpeace limits China protest

Greenpeace, the environmental group, said yesterday its ship would go "as far as possible" but "will not force our way" into Chinese territory or seek violence. The MV Greenpeace now approaching China's territorial limits had hoped to be allowed to go to Shanghai to preach the organisation's anti-nuclear message.

In Beijing, a Foreign Ministry spokesman said that if the ship "forces its way into a port of China we will use Chinese laws to repel it," adding: "If it breaks any laws, then in accordance with the UN convention on the Law of the Sea... the Chinese government has the right to take measures to prevent and stop any non-innocent passage."

Mr Xavier Pastor, head of the campaign against the country's nuclear tests – the latest of which was set off last Saturday – said: "We are disappointed that we have not managed to make China understand that this is a peaceful voyage." *AFP, aboard the MV Greenpeace*

■ Japan's private sector machinery orders, excluding those for electric power and ships, rose a seasonally adjusted 26.7 per cent in April from the previous month, the Economic Planning Agency said. *Reuter, Tokyo*

■ Twenty Pacific region economies are expected to grow an average 3.9 per cent this year and 4.2 per cent in 1997, the Pacific Economic Co-operation Council said. *AFP, Washington*

Canberra targets states in drive to increase revenue

By Nikki Tait in Sydney

Australia's conservative federal government will raise almost A$500m (US$396m) a year by removing the wholesale tax exemption for motor vehicles at present granted to federal, state and local governments.

The move is one of the few concrete cost-saving measures announced since the government took office in March.

This change will take effect immediately, to be followed by removal of the general exemption from wholesale sales tax at present enjoyed by governments when the next federal budget is released in August.

Total abolition of sales tax exemptions on all levels of government could raise A$1.7bn in a full year, with two-thirds of that cost falling on the states and local authorities.

In return, Canberra is offering to increase its total revenue assistance to the states by 3.9 per cent to A$16.4bn in the 1996-97 financial year. State governments in Australia have few tax-raising powers of their own and are largely dependent on grants from Canberra for their income.

The federal government is battling to find cost-savings of A$8bn over the next two financial years in an effort to get its own budget into balance.

Speculation has been growing that it will try to achieve this either by squeezing the states or passing potentially costly spending programmes into their hands.

Mr Peter Costello, federal treasurer, defended the changes yesterday, saying the federal government was aiming "to provide maximum certainty as to the level of general revenue assistance to be provided to the states and territories".

Removal of wholesale tax exemption, he claimed, was "an important microeconomic and taxation reform" which "removes distortions, prevents a growing abuse and removes an unfair advantage which the government enjoys when competing against the private sector in business operations".

The announcement comes ahead of a meeting this week between state and federal government leaders. Mr Jeff Kennett, Victorian state premier, has called for tax reform to be on the agenda, a move rejected by the federal treasury.

Seoul to give $3m food aid to North

By John Burton in Seoul

South Korea yesterday agreed to give $3m in humanitarian aid through the United Nations to alleviate North Korea's food shortage. The offer, which officials described as "symbolic", represents a slight easing of Seoul's recent refusal to provide food aid to its foe.

The government adopted the hard line on food aid after domestic criticism for shipping 150,000 tonnes of free rice to North Korea last summer without gaining political concessions in return. But Seoul has been under pressure from the US to relax its policy because of concerns in Washington that a starving North Korea could cause political instability in the peninsula.

The South Korean offer would help support the Clinton administration's expected decision to provide $6m aid to North Korea. President Bill Clinton has been criticised by his Republican presidential challenger, Mr Bob Dole, for "coddling" North Korea.

Seoul and Washington are responding to a UN appeal for $43.6m in emergency food supplies to North Korea. The UN estimates that North Korea faces a grain shortage of at least 1m tonnes, one-seventh of the country's normal requirements, following floods last summer.

South Korean officials expect the UN will collect only $30m because of international wariness about helping North Korea. Japan has promised $6m and Taiwan $7m.

NEWS: INTERNATIONAL

Brokers accused of 'conspiracy' over credit and settlement dangers

Users 'unaware of derivatives risk'

By Richard Lapper, Capital Markets Editor, in London

Futures and options exchanges yesterday announced measures to improve communication and reduce risks in the wake of the Barings crisis last year – but the ignorance of many of their customers could still lead to large losses in financial markets, a London conference was warned.

Many companies which buy futures and options are unaware of credit and settlement risks in the derivatives market, Mr Verne Sedlacek, executive vice-president of the Harvard Management Company, told the conference, an annual event organised by the US and UK futures and options associations.

Mr Sedlacek, who is also member of an international industry task force which has spearheaded moves to promote co-operation between exchanges and their regulators, said the industry was making substantial progress in redncing risks.

The task force, formed last year, yesterday published its final report which includes guidelines on how exchanges and clearing houses should present information to their members and customers. These include, for example, their procedures in the event of a default by a member firm.

The Futures Industry Association, the US trade body which sponsored the task force, said six more derivatives exchanges had signed a memorandum of understanding committing exchanges and their regulators to exchange information about their members' trading positions. Three Japanese exchanges have already signed while two more Japanese markets are expected to follow suit later this month, lending grester weight to the agreement which was signed in March.

However, progress in these areas contrasts with the industry's failure to raise the general level of understanding sbout futures and options among corporate buyers and fund managers – so-called "end users".

While many hnyers were aware of market risk – the risks linked to adverse movements in prices – the industry had done a "poor job to get through to people that there is credit and settlement risk," said Mr Sedlacek, at a session on the "global response to risk management after Barings".

"The fact that a customer is reasonably ignorant creates a lot of risk for the system. It creates the risk that a customer will go down and put substantial pressure on the exchanges," he added.

Arguing that there is an "unspoken conspiracy" to keep end-users in the dark, Mr Sedlacek said that, in their hunger for new business, some brokers were not fully spelling ont the risks faced by their customers. "I think overcapacity is feeding the ignorance."

Mubarak back at centre stage

James Whittington on the regional role of the Egyptian president

As Egypt prepares to hold next week the first full-scale Arab summit since 1990, Egyptian President Hosni Mubarak is again back at the heart of regional Arab politics.

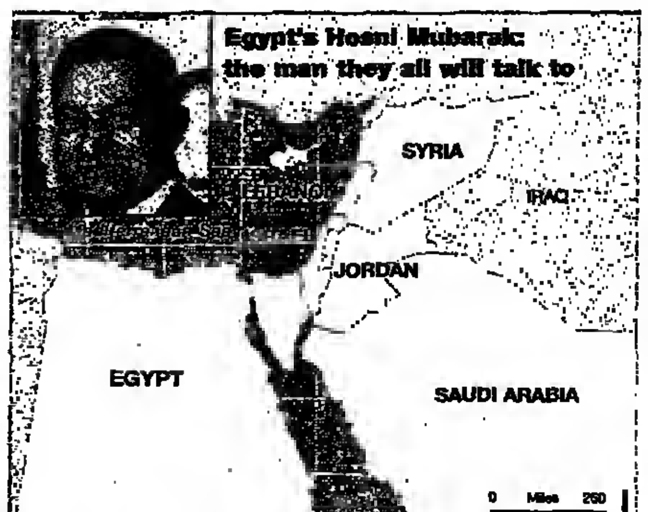
It took the shock election of the Likud party in Israel and subsequent fears for the Middle East peace process to bring together 18 Arab leaders who for years have been reluctant to meet under the same roof.

"Whether we like it or not we are always at the centre of things," said Mr Mubarak in an interview. "We are the biggest country in this part of the world [with a population of 60m] and our history, nature and culture have always given us a central role."

Over his 15 years in office, the 68-year-old former air force commander's patience and circumspection have often proved hetter suited to the development of Egypt's foreign affairs than to domestic policy.

When he succeeded President Anwar Sadat, assassinated by Islamist militants during an army parade in 1981, Egypt's regional place was the dog house. Stigmatised at being the first Arab state to sign up to peace with Israel, in the form of the 1979 Camp David accords, Mr Mubarak spent his first years in office focusing on re-building the country's profile and influence.

This was capped, a decade lster, by his recruitment of Arab allies to help the US-led coalition force Iraq out of Knwait in 1991. In return, Egypt not only re-established its role as the leader of the Arab world but received a shot in the arm of its neglected economy with a reduction of its foreign debt from $51bn in 1991 to $36bn now.



After the Gulf war, Egypt played a significant role in pushing forward the Middle East peace process which led to two more Arab/Israeli peace agreements, first with the Palestinians, then Jordan.

More recently, Egypt has watched its regional role diminish as the peace process has unfolded. With less demand for a regional broker between the Arabs and Israelis, the skilled mandarins of the foreign office in Cairo had even begun to carve themselves a role in domestic economic policy, seeking something useful to do.

Now, as they scurry to make arrangements for the summit, some of the same officials are working on the assumption that Egypt can benefit from Mr Benjamin Netanyahn's rise to power in Israel if it can re-establish itself as the only Arab country that a Likud-led government will feel comfortable talking to.

Last week, acting as the only common denominator to s series of mini-summits last week, he met first with Mr Hafez al-Assad, his Syrian counterpart, in Cairo, then with King Hussein of Jordan and the Palestinian leader, Mr Yassir Arafat, in Aqaba. Then he joined Saudi Arabia's Crown Prince Abdullah in meeting Mr Assad again in Damascus.

His message after each summit was the same as he expressed before Mr Netanyahu was elected as Israel's prime minister: "I don't want to be rushed to give my impression before we wait and see what Netanyahu's policies are...If he starts to put obstacles then certainly there will be a big problem," he said, adding: "Since we have been able to work with (Likud's previous prime ministers such as (Menachem) Begin and (Yitzhak) Shamir, I see no reason why we can't work with Netanyahu."

A brief look at Mr Netanyahu's election promises might, at first, make such opanmindedness seem like wishful thing. The next prime minister of Israel has firmly ruled out s Palestinian state, Jerusalem will always remain the eternal capital of Israel, the Golan Heights will not be returned to ths Syrians, and money will be poured into new settlements for Israelis in the West Bank.

But Mr Mubarak says if he has learned one thing the past 15 years, it is: "It's a crazy world and you never know what's going to happen next."

France reaps reward of friendship with Saddam

By David Owen in Paris

It has been a long wait. But France may be within days of starting to reap the commercial rewards of being Iraq's best friend in the west since the United Nations trade embargo began in 1990.

Mr Amir Rasheed, Iraqi oil minister, said yesterday it would be "one or two weeks at the most" before Iraq signed its first crude oil supply contracts since last month's agreement to relax the embargo by allowing Baghdad to exchange oil for food and medicines.

He indicated French companies would be given priority in both the purchase of Iraqi oil and the sale to Baghdad of food and medicines. "Fiendly countries who have supported us, like France and Russls, will certainly be given priority," he said. He was optimistic that the embargo would be lifted completely "before the end of this year".

Mr Rasbeed's comments came during a five-day visit to Paris in which he met representatives of some of France's largest companies and Mr Franck Borotra, industry minister.

The Iraqi oil minister arrived in Paris on Saturday after last week's meeting of the Organisation of Petroleum Exporting Countries in Vienna. That meeting ended by raising Opec's oil production ceiling from 24.52m barrels a day to 25.033m harrels s dsy and allocating all the increase to Iraq. Under the UN agreement Baghdad will soon be able to export $2bn (£1.3bn)-worth of oil every six months.

Among the French groups with most to gain from a complete lifting of the embargo are the oil companies Total and Elf Aquitaine which hsve held talks over the past few years with the Baghdad government about oil field development deals in Iraq. Mr Rasheed indicated this week negotiations were st s "very advanced" stage and Baghdad was ready to sign contracts worth around $4bn.

But French companies will not be able to implement any contracts until the United Nations is convinced Baghdad has abandoned all its plans to build weapons of mass destruction.

It is traditional to date the start of France's friendship with Iraq to 1974 when Mr Jacqnes Chirac, then prime minister, struck up a relationship with the Iraqi leader Saddam Hussein in an exchange of official visits. By this time Iraq was already an important source of oil for France.

Under Mr Chirac, France agreed to supply Iraq with the Osirak experimental nuclear reactor that was later bombed by Israel. The rightwing governments of the 1970s also began a large programme of arms sales to Iraq.

During the war with Iran in the 1980s, France was an important arms supplier to the Baghdad regime, providing Dassault jet fighters, Gazelle assault helicopters and other items of military hardware.

In January 1996, France was rebuked by the US and the UK after it said it was soon to re-establish a limited diplomatic presence in Iraq. A growing French commercial presence followed the diplomatic initiative. Elf and Total, for example, recently opened permanent offices in Baghdad, and French trade delegations have been among the most frequent visitors to the Iraqi capital over the past year or so.

Neglected tragedy of maternal death toll

By Frances Williams in Geneva

Nearly 600,000 women die in pregnancy and childbirth each year, according to the United Nations Children's Fund.

In its annual report on "The Progress of Nations" published yesterday, Unicef said one in four women in the developing world suffers from rupture of the nterus, prolapse, pelvic inflammation and lower genital tract injuries that can cause permanent disablement.

Ms Carol Bellamy, Unicef executive director, said: "It is no exaggeration to say that this is one of the most neglected tragedies of our times, when 1,600 women die every day during pregnancy or childbirth." One in 13 women in sub-Saharan Africa and one in 35 women in south Asia die of maternal causes. In western Europe the ratio is one in 3,200, in ths US one in 3,300 and in Canada one in 7,300.

Basic obstetric training for doctors, midwives and nurses, and inexpensive upgrading of hospital facilities could ensure safer deliveries.

Foreign bond defaults likely to rise

By Conner Middelmann in London

Defaults by sovereign governments on international bond issues are likely to rise towards the end of this century, having fallen since the early 1990s, according to a report by the international credit rating agency Standard & Poor's.

"Default rates will likely start climbing again as tha number of sovereigns of lesser credit quality issuing cross-border debt continues to grow," says the report, which has studied defaults on bonds and bank loans since 1975.

Since no sovereign government borrower has to date defaulted on an issue rated by S&P, the study tracks defaults on unrated short- and long-term bank loans, privately placed debt issues and unrated public bonds.

Defaults on foreign-currency bonds in the 1970s and 1980s were rare, mainly because few governments with weak credit ratings issued bonds at that time, relying on bank loans for the lion's share of their cross-border borrowing.

Borrowing patterns changed in 1990 when Mexico issued the first Brady bonds in exchange for discounted bank debt. However, with broadly favourable global economic conditions offsetting the lower credit quality of newly rated issuers, defaults on bonds, in contrast to bank loans, hsve been rare, the study says.

But looking ahead, S&P "expects default rates to begin picking np as the decade draws to a close".

Although the next round of defaults will differ from the 1980s, it predicts: "Bank debt should feature less prominently in future defaults, and foreign-currency bonds – possibly including issues rated by S&P – much more so."

As a result, the study forecasts, default rates on foreign-currency bonds should rise eventually to converge with those on bank loans, although the overall number of sovereigns in default and the total amount of defaulted debt should be lower than in the past, it predicts.

International capital markets have been increasingly receptive to issuance by speculative-grade rated sovereign debt at a time when low interest rates in low-risk, "developed" countries have sent investors and bankers scrambling for yield in riskier markets.

However, "the market appetite for speculative-grade debt, now seemingly secure, is certain to be tested once sovereign bond defaults occur," S&P warns.

How The Global Express Wing Completes Flights Faster And Slower Than Ever Before.

John J. Lawson, President, Business Aircraft Division, Canadair

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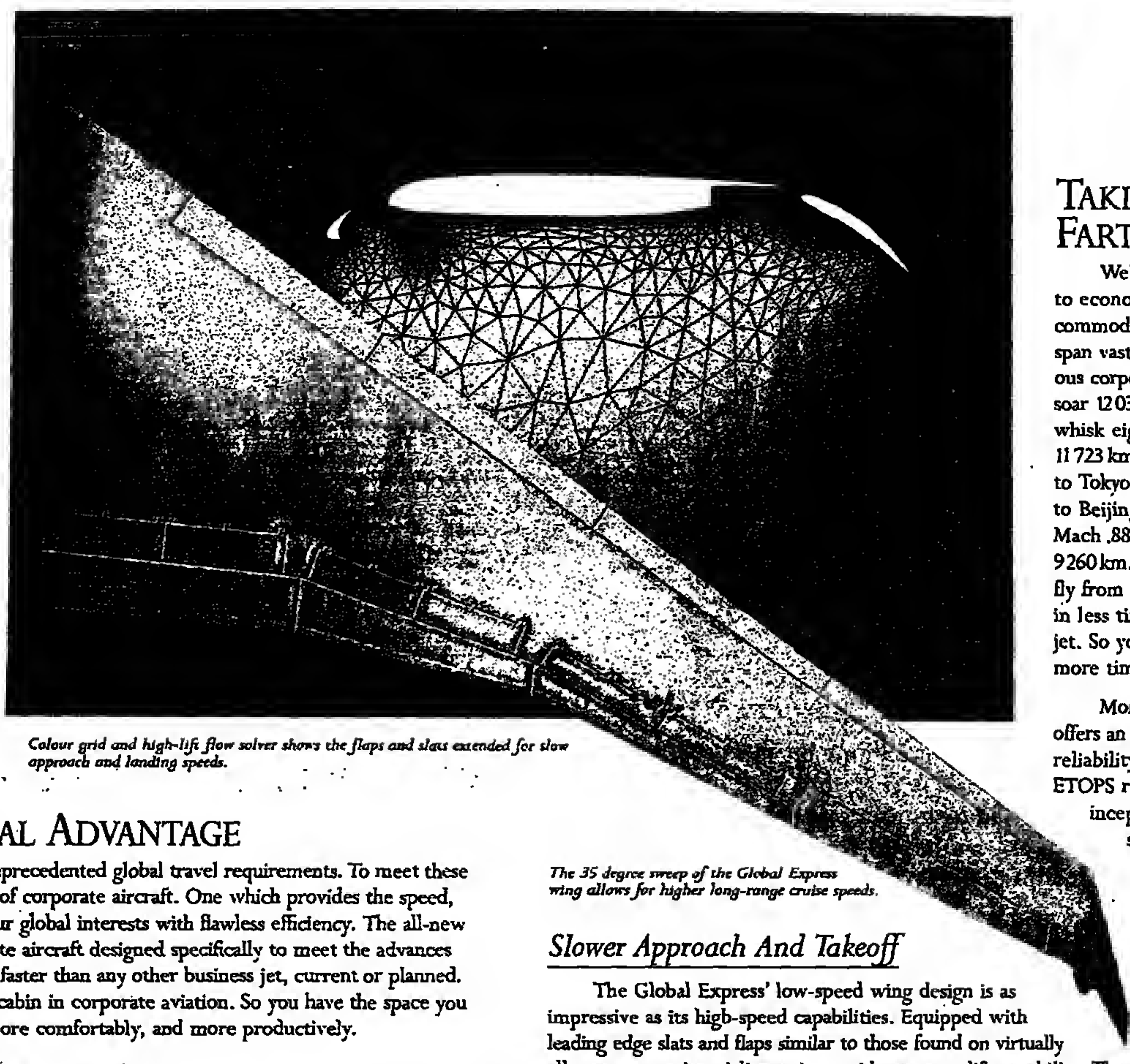

Colour grid and high-lift flow solver shows the flaps and slats extended for slow approach and landing speeds.

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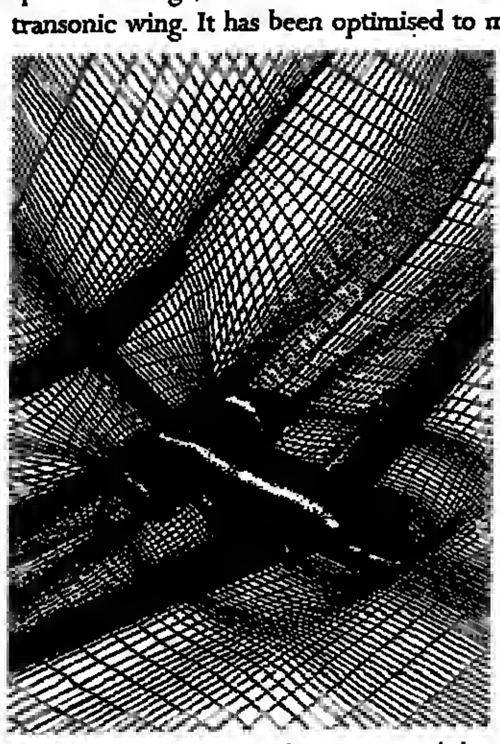

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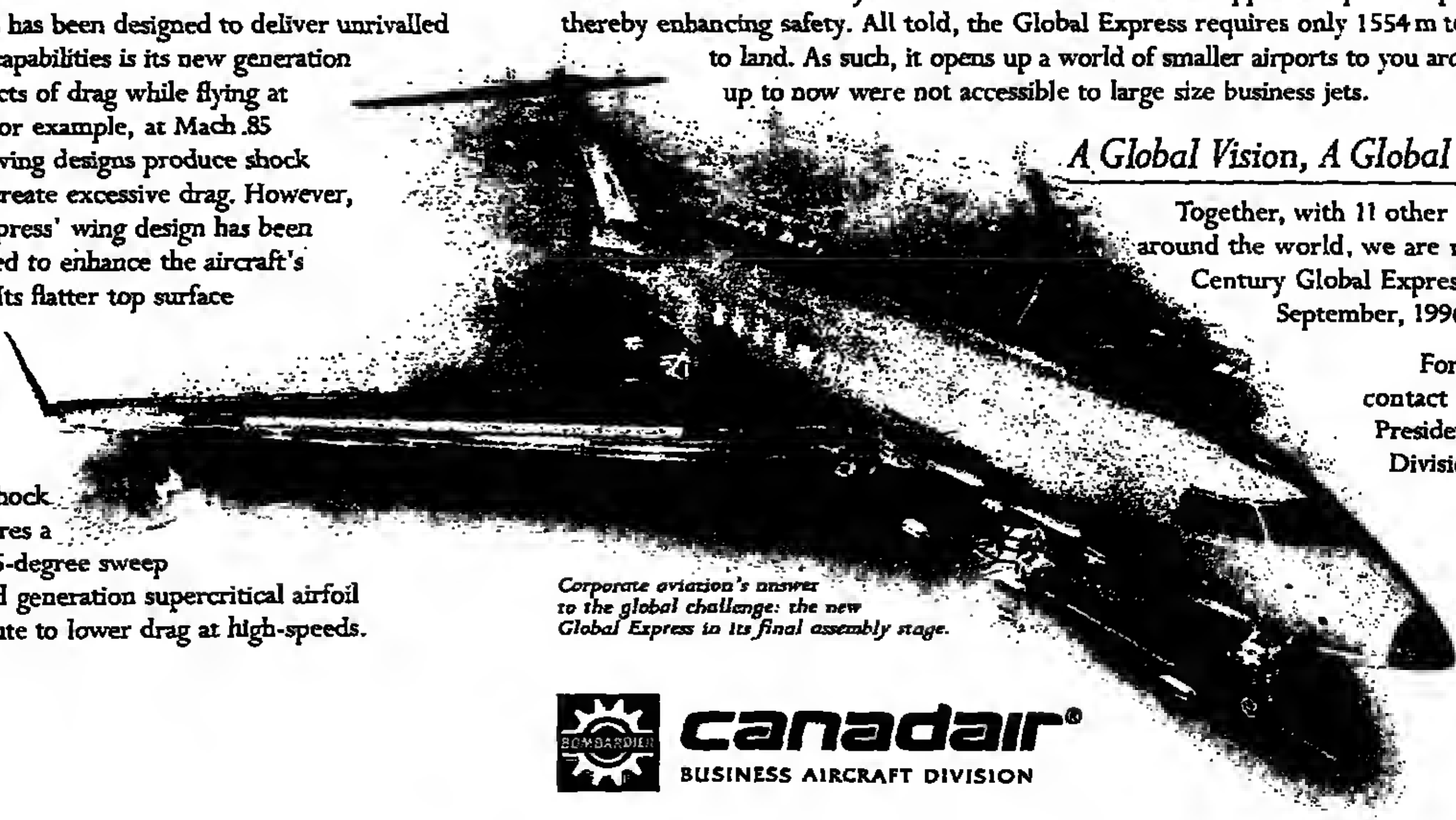

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NEWS: THE AMERICAS

Fed caught between the market and the politicians

Reading the numbers to decide on what to do about interest rates is always hardest in an election year, writes Michael Prowse

It has the hallmarks of a classic monetary dispute. Bond investors think the US Federal Reserve should respond to accelerating economic growth by raising short-term interest rates. The White House, with an eye on the presidential election in November, says no action is necessary because inflation is dead.

The Fed is caught in the middle. Officials seem surprised by the spurt in economic growth and are not yet convinced that a tightening of monetary policy is necessary. But they usually end up following Wall Street's lead on rates.

The stakes in this debate were sharply raised on Friday when the Labour Department released buoyant jobs figures that suggest the economy may expand at an annual rate of 3.5 to 4.0 per cent this quarter, far above its long-term potential. Officials said non-farm payroll employment rose 348,000 last month, about twice the expected increase. The average monthly gain so far this year is 222,000, equivalent to 2.7m a year – a strikingly robust pace given the maturity of this economic cycle.

Benchmark data revisions indicated employment growth was stronger than previously thought throughout 1995. Monthly increases averaged 160,000, even during the supposedly depressed second half of last year when the Fed began to ease monetary policy. By this February total employment was 118.6m, 750,000 higher than previously estimated. The surge since then has taken the total to 119.3m, nearly 10m higher than when President Clinton took office.

Other figures confirm this picture of a powerful economic rebound. Sales of cars and homes have soared despite the rise in long-term interest rates. A big jump in retail spending for May is likely to be announced tomorrow. Data on hours worked indicate manufacturing output could grow at an annual rate of 8 per cent this quarter.

Economic growth of 3.5 to 4.0 per cent would be a marked acceleration from 2.3 per cent in the first quarter and 0.5 per cent at the end of last year. It would be especially striking given statistical reforms earlier this year – the shift to "chain-weighting" – that were expected to depress measured growth. On a chain-weighted basis (under which regular adjustments are made for relative price changes in the economy), the sustainable growth rate is put at just above 2 per cent, 0.5 percentage points lower than on the old basis.

The growth surge is reminiscent of that in 1994, but potentially more inflationary because it is occurring at a lower jobless rate. Reacting to the risk of higher inflation, long bond yields have already risen about a percentage point this year. The market is discounting several increases in short-term rates that would take the benchmark federal funds rate to 6 per cent or more by the year end. Many analysts expect the Fed to begin tightening policy by August at the latest.

Such action would not please the White House. On Friday, President Bill Clinton used the jobs report as an excuse for publicly lecturing the Fed. "I would think interest rates should stay down," he said, noting that the job growth was occurring with "no inflation".

He has more leverage over the Fed than usual because Mr Tom Harkin, a leftwing Democratic senator from Iowa, is blocking confirmation of Mr Alan Greenspan's appointment to a third term as Fed chairman. Mr Clinton seems to be making little effort to get his nominee confirmed quickly.

Some Fed-watchers regard this as a subtle way of ensuring Mr Greenspan's "good behaviour" on rates – of discouraging a tightening of monetary policy before the election.

But if the Fed chooses not to raise rates next month, it could be for economic rather than political reasons. Those sceptical of the need for rate increases argue that growth to date has not been inflationary – commodity prices are falling rather than rising and producer price figures released yesterday once again signalled the lack of price pressure at the wholesale level.

"This is just plain healthy economic growth. It is not inflationary because wage gains are offset by productivity increases," says Mr Mickey Levy, a senior economist at NationsBank in New York. Others stress that rapid growth may be shortlived because of the depressing influence of higher bond yields.

Some senior Fed officials share these views. "I'm sceptical that we're in a robust boom here," says Mr Larry Lindsey, a Fed governor. He recalls that the financial markets were frightened of recession only a few months ago and chides analysts for putting too much stress on quarterly growth rates. Growth is likely to moderate later this year because of the high level of consumer debt, he argues.

Wall Street economists pushing for higher rates regard this as a dangerously complacent view. They argue that the momentum already acquired in sectors such as housing and cars, and the likely rebuilding of business inventories, virtually guarantees a strong third quarter. If growth stays above trend, the jobless rate could fall toward 5 per cent, and the mild acceleration in wage inflation evident in the first quarter might intensify.

If the Fed does not act promptly it could thus find itself in the politically embarrassing position of needing to tighten aggressively during the final stages of the election campaign – something it has always tried to avoid.

US producer prices fell unexpectedly last month, bringing some relief to a bond market battered by last Friday's report of a surge in employment, writes Michael Prowse in Washington.

The Labour Department said that a fall in energy prices had led to a 0.1 per cent drop in producer prices last month, following a 0.4 per cent gain in April.

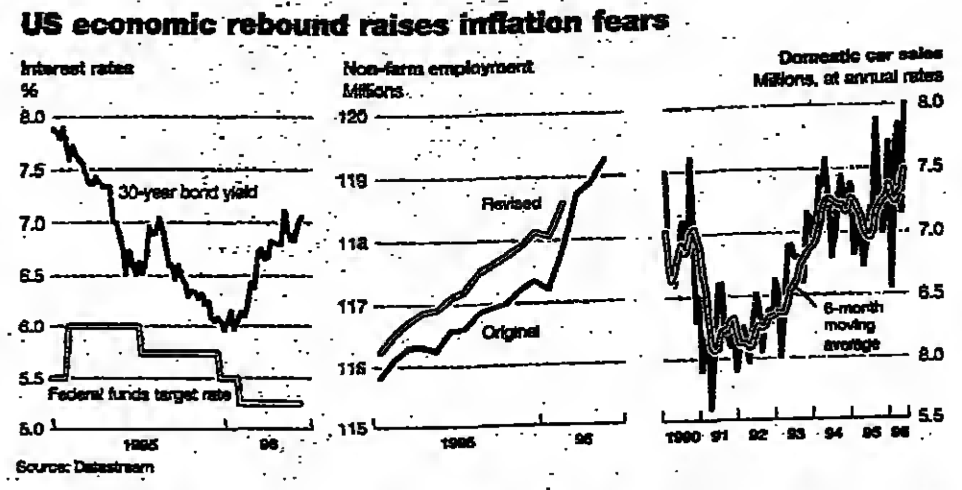
The figures prompted a modest rise in bond prices in early trading yesterday, as they appeared to indicate that faster economic growth in the US was not yet putting upward pressure on inflation.

Excluding the volatile food and energy components, "core" producer prices were unchanged, having risen by 0.1 per cent in the preceding three months. Wall Street economists had expected a 0.2 per cent gain in both the core and overall index.

However, there were tentative signs of inflationary pressures for goods at an earlier stage of production.

Prices of crude materials rose 1.3 per cent, after a 6.3 per cent gain in April. Prices of intermediate goods rose 0.5 per cent, after a 0.3 per cent gain.

US economic rebound raises inflation fears



Source: Datastream

In there pitching: United Auto Workers officials Ernest Lofton (left), responsible for Ford, and Stephen Yokich, union president, with baseball bats autographed by their negotiators Picture: Reuter

Horns are locked in earnest as US car workers' three-year deal nears expiry

Union talks with GM on new contract

By Richard Waters in New York

On Monday, there were talks at Ford. Yesterday, the parties were face-to-face at Chrysler.

But it is only today, with the opening of talks on a new three-year contract between General Motors and the United Auto Workers union, that the most significant US labour negotiations of the year get under way.

The country's biggest carmaker has already locked horns with the union once this year, prompting the industry's worst industrial dispute for a quarter of a century. In March, workers at two GM plants at Dayton, Ohio, went on strike for 17 days, starving the group's factories of brake parts and bringing its North American operations to a halt.

That has set the scene for what is likely to be a tense round of negotiations, leading to the deadline of September 14, when the existing three-year agreement is to expire.

The opening this week of the talks is largely ceremonial. The union will hold talks concurrently with all three carmakers in the coming weeks, before choosing, late in August, which to concentrate on first in order to reach an agreement.

In the industry's pattern-bargaining tradition, that agreement is then used as the blueprint for the other two manufacturers and their workers.

Early indications suggest that the union will pick Chrysler, rather than GM, to hammer out its initial contract.

The smallest of the Big Three, Chrysler has also emerged as the most profitable. Its heavy reliance on light trucks – the sports utilities, pick-up trucks and minivans that have been the hottest part of the US market – has kept many of its assembly plants operating on three shifts to try to keep up with demand. This gives Chrysler an added incentive to avoid a confrontation with the union.

Also, Chrysler makes fewer of its own parts in-house than does Ford or General Motors, and so is less likely to resist the union's efforts to force an agreement from the Big Three that they will not farm out more jobs to lower-cost, non-unionised suppliers.

It is this issue which fuelled the Dayton strike and which will add tension to the negotiations with GM. The dispute resulted in a compromise, with GM agreeing to hire more workers at its Dayton plants while retaining the right to buy brake parts from a supplier.

Mr Steven Yokich, UAW president, put the focus squarely on employment levels at the Big Three earlier this week. "Job security is number one," he said as he opened the formal talks with Ford.

Besides trying to keep jobs from moving to non-unionised suppliers, Mr Yokich also made clear that the union would press for the carmakers to hire more workers so as to meet the current cyclical rise in demand for new vehicles. While the manufacturers have increased their employment levels somewhat in recent years (Ford has added nearly 10,000 hourly positions in the past three years, taking the total to 104,000), they have generally used overtime to lift production.

The companies which supply parts to the US motor industry, meanwhile, are clearly hoping that the round of talks this year will open the way for a new wave of expansion for their businesses.

"The new leadership of the UAW is trying to flex its muscles, without a doubt," said Mr Joseph Gorman, chairman of TRW, one of the biggest US makers of car parts. He predicted, though: "It's a throwback to earlier times, and it will ultimately fail."

NEWS DIGEST

Girl held on church burnings

A 13-year-old white girl was charged with having burned a sanctuary in North Carolina, and three men were questioned about two weekend blazes in Texas, as US federal investigators looked for evidence of a racist conspiracy in a string of fires at southern black churches, AP reports from New York.

The White House said President Bill Clinton would today visit one of more than 30 churches which have been burned over the past 18 months.

Authorities said that the girl was not a suspect in any of the other fires, but they added that a conspiracy had not been ruled out.

Chilean smog

Smog levels in Santiago, the Chilean capital, reached dangerous levels at the weekend, forcing the authorities to implement emergency measures yesterday, Imogen Mark reports from Santiago.

Public and private hospitals reported a 50 per cent increase last week in the number of children brought in for emergency treatment of respiratory infections and as a result of a smog-related influenza epidemic which is sweeping the city.

The government measures include tighter curbs on the number of private vehicles allowed to circulate. More than 170 factories were also ordered to close temporarily.

Haitian appeal

President René Préval of Haiti appealed to the European Union yesterday for new economic aid, and disputed suggestions that his country misspends such funds or lacks the capacity to absorb them. AP reports from Brussels.

"We do have a problem of absorption capacity," he said. "Funds will be spent on programmes for which they are approved and will not be embezzled."

Mr Préval said Haiti's needs for economic aid were enormous. He asked the EU to back its applications for loans from the World Bank and the International Monetary Fund.

Democrats object to health insurance deal

By Jurek Martin, US Editor, in Washington

Senator Bob Dole, on the night before his last day in the US Congress, managed to persuade his Republican colleagues to accept a compromise health insurance reform bill that, if passed, would enable him to claim a final legislative triumph.

But that prospect was fading yesterday under the light of strong Democratic objections to the bill, with the possibility of a veto from President Bill Clinton in the background.

The bill is named after its sponsors, Senators Edward Kennedy, the Massachusetts Democrat, and Nancy Kassebaum, the other Kansas Republican besides Mr Dole. It is designed to make health insurance more portable from job to job, and to guarantee coverage of pre-existing health problems.

It had enjoyed broad bipartisan support, including the White House, before running into two sticking points: the introduction of tax-free medical savings accounts and putting mental health coverage on a par with that for physical ailments. The first was rejected in the Senate version of the bill: the House measure makes no mention of mental health.

In the compromise, the Republicans agreed to confine medical savings accounts in the initial three-year phase to small businesses and the self-employed, affecting an estimated 40m people. The mental health provision was sent for further study.

The White House cautiously called the Republican plan "a good faith offer", but Senator Kennedy was dismissive, calling it "a travesty". He regretted that Senator Kassebaum had "bowed to the pressure" of Mr Newt Gingrich, the Speaker, and the rest of the Republican leaders in the House of Representatives.

Extended mental health coverage has run into strong criticism from the insurance industry on the grounds of cost, but medical savings accounts have proved the bigger bone of contention between the two political parties.

Individuals would be able to set up special tax-free accounts against future medical problems, to be coupled with high deductible insurance against catastrophic sudden illness. Proponents argue these would help to make the public more cost-conscious.

Democrats complain these would be used mostly by the rich and would reduce the traditional insured pool to the poor and chronically sick, who would end up paying much higher premiums. Mr Clinton has said that, as originally drafted in the House bill, he would have no choice but to exercise a veto.

Mr Dole regretted on Monday night that the compromise would not be voted on before he left the Senate, but he hoped for action by the end of the week. Senator Kennedy had appealed to Mr Dole to delay his departure to try for a better deal.

Scandal clouds negotiations with Banco Nación

IBM may cut price on Argentine bank contract

By David Pilling in Buenos Aires

IBM may cut tha $249m price for upgrading the computer aystem at Argentina's state-owned Banco Nación, in response to allegations that bribes inflated the cost of the original contract.

"Negotiations are under way," Mr Fred McNeese, IBM spokesman, said yesterday. "The price is part of those negotiations. If the information technology required by the bank changes, then the price would change too."

Senior exectives of IBM Argentina, as wall as nearly the entire board of Banco Nación, were among 30 people indicted last April on suspicion of having defrauded the Argentine state. This followed a six-month investigation into allegations that bribes were paid to win one of Latin America's biggest information technology contracts.

Mr McNeese denied a report in yesterday's Clarín newspaper thet the incoming Banco Nación board wanted to terminate the IBM contract and was seeking compensation. The report also said IBM had agreed to return $20m of the $80m already paid by Nación.

"We have received nothing from the bank concerning the cancellation of tha contract," said Mr McNeese. "The $20m figure is news to us. Completion of the talks [with Nación] will determine whather the project gets completed or oot." Officials at Banco Nación were not available for comment.

IBM has not yet responded to reqnests from Argentine judges to interview four of its US employees who oversaw the Banco Nación contract. Although an informal petition has been made by Argentine authorities, "no formal request" had been lodged under a mutual legal assistance treaty between the two countries, the company said.

IBM, which denies its US-based staff were aware of certain aspects of the Nación contract, is believed to be extremely reluctant to allow US executives to be interrogated on Argentine soil. It is likely to want clear ground rules established before it makes them available to testify.

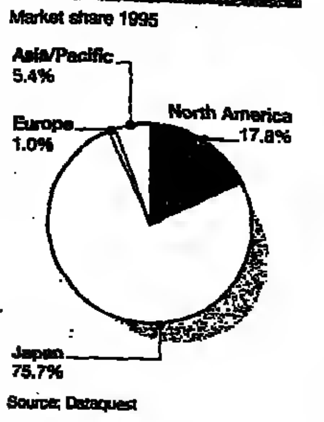
IBM insists its US officials were unaware of a $37m sub-contract with CCR, an Argentine company, for a back-up syatem that was never required. Suspicion has focused on this sub-contract as a possible conduit for bribes.

"Money was to be paid [to CCR] whether the back-up system was installed or not. That's not the way it should be done," said Mr McNeese. "No one in the US was aware that money was going to CCR."

NEWS: WORLD TRADE

Japan agrees to talks on chip accord

World of semiconductors



By Michiyo Nakamoto in Tokyo

Japan and the US are to hold talks in an attempt to break the deadlock over renewal of the controversial semiconductor agreement which expires at the end of July.

The decision by Japan's trade ministry to agree to talks represents a significant shift from its previous atanca of rejecting any further government involvement in the semiconductor issue.

The ministry of international trade and industry had insisted it would let the bilateral agreement expire next month, despite persistent US pressure to renew the accord.

Although Japanese officials have been willing to discuss the issue with US officials, Miti had made clear it did not consider official talks necessary.

The Japanese position has been that since the domestic semiconductor market is completely deregulated, any initiative involving greater market access for foreign companies should be led by the private sector.

To that end, the Electronic Industries Association of Japan has called on the US Semiconductor Industry Association and European chipmakers to set up a world semiconductor body to boost industry co-operation.

While European chipmakers have been keen on the idea, the SIA has failed to respond to proposals made this month by the Japanese.

In May, the SIA abruptly postponed its tenth annual regular meeting with its Japanese counterpart "until the US and Japan reach accord on a new inter-governmental trade agreement".

Yesterday's conciliatory move by Miti indicates its acknowledgment that the US is unlikely to participate in such private-sector co-operation without the involvement, in some form, of the government.

Any private sector co-operation would hold little meaning without the participation of the US, trade officials concede.

"We have not changed our position against monitoring the market, but it looks like industry-level talks will not progress unless there are government-level discussions," a Miti official conceded.

The US wants to renew a government agreement along the lines of the 1991 US-Japan Semiconductor Arrangement, which recognised the US industry's expectation that the foreign share of the Japanese market would exceed 20 per cent by the end of 1992.

The Japanese government is unhappy with that agreement, which requires official monitoring of foreign market share in Japan. It counters that since there are no government regulations hindering access to Japan's semiconductor market, there is no need for government intervention.

Miti does not expect the talks, scheduled for next week, to lead to a new semiconductor agreement.

Instead, it proposes to exchange views on how the two governments might lay the groundwork for industry-to-industry co-operation.

Labour rights plea to WTO

By Frances Williams in Geneva

The US and France yesterday renewed calls for the World Trade Organisation to study the link between labour standards and trade, despite strong opposition from developing countries.

Addressing the annual meeting of the International Labour Organisation in Geneva, French President Jacques Chirac said trade liberalisation, the development of employment and respect for fundamental labour rights were "inseparable".

"We must seek a way to link respect for the social dimension... and the liberalisation of international trade," he said, urging that the issue be discussed by the ministerial conference of the WTO in Singapore in December.

Mr Robert Reich, US labour secretary, who also addressed the ILO conference, called for a WTO working party to consider the trade body's role in implementing core labour standards.

Mr Reich, who earlier met Mr Renato Ruggiero, WTO director general, said he sensed a greater willingness among developing countries to discuss the issue than previously.

This was partly because those in favour of a "social clause" in the WTO had made clear their concern was with core labour standards upholding basic human rights and not with so-called "developmental" standards such as wages and working conditions which tended to improve as a country became richer.

Many developing countries, especially in Asia, fear discussion of labour standards in the WTO would serve as a pretext for the use of trade sanctions aimed at removing their cheap-labour advantage.

However, Mr Reich said upholding basic rights – a ban on forced labour and child labour, non-discrimination and the right to form a union and bargain collectively – was not only a justifiable humanitarian concern but necessary to maintain political support in rich nations for further trade liberalisation.

"By pressing this issue the US is not seeking a back door toward protectionism. On the contrary we're seeking the front door toward a more liberalised trading regime worldwide," he said.

Members of the Association of South-East Asian Nations (Asean) have decided formally to oppose any such moves on workers' rights at the Singapore meeting.

Radio enthusiasts bank on Ariane 5

By Michael Skapinker, Aerospace Correspondent

Among those hoping for a speedy recovery of Europe's space programme after last week's fiery Ariane 5 failure are thousands of amateur radio enthusiasts, who fear they may soon be deprived of high-quality satellite links.

Amateur radio users around the world have raised $3m to build their own satellite, which was due to be launched later this year on an Ariane 5 rocket.

Mr Ron Broadbent, 71, a veteran London-based radio enthusiast who is co-ordinating the international fund-raising effort, said an early resumption of Ariane launches was urgently needed by the elite band of radio operators who use satellite rather than terrestrial links to communicate with one another.

Mr Broadbent said that 10,000 of the 1.25m amateur radio enthusiasts operators worldwide had the necessary equipment to communicate by satellite.

There are several low-altitude amateur radio satellites in orbit, some with cameras that transmit pictures back to earth, which can be picked up on personal computers linked to radio equipment.

But it is the two existing high-altitude satellites, Oscar 10 and 13, which provide radio users with the ability to communicate for longer periods and with other users further away.

Oscar 13 is expected to re-enter the earth's atmosphere and burn up in December. Oscar 10 has been in orbit since 1983 and its computer memory is failing, as are its solar rechargeable batteries.

The planned successor to the Oscar satellites, Phase 3D, is intended to provide radio users with better sound and pictures than they have had before.

Made up of components built in 14 countries, the satellite is being assembled in Orlando, Florida, from where, if all goes well, it will be shipped to French Guiana for launch by Ariane.

Its transmitters will be more powerful than those on earlier satellites. A set of spinning wheels on Phase 3D will re-orient the satellite in orbit so that its antennas always point towards the earth. On Oscar 10 and 13 the antennas sometimes point towards space, making communication difficult.

Mr Broadbent said he did not know whether insuring Phase 3D would be more costly after the Ariane failure.

Mr Bill Tynan, president of the US amateur radio satellite organisation, said that with the know-how acquired by the enthusiasts a second satellite could be built for $500,000 or less.

European leaders will be looking for flexibility in Washington

Trade to dominate US summit

By Lionel Barber in Brussels

EU leadars arrive in Washington for a bi-annual summit today, likely to be dominated by trade, especially European concerns about US legislation on Cuba.

The European team, headed by Mr Romano Prodi, the new leftwing Italian prime minister, will be looking for signs of flexibility from President Clinton who has beat a steady retreat from multilateral trade negotiations in the run-up to the November presidential election.

The Washington summit is the first since the US and EU signed an ambitious accord last December to strengthen trade and political co-operation in the post-cold war era. Meanwhile, a series of brush-fire disputes have overshadowed the good intentions outlined in the transatlantic dialogue:

● The EU is fiercely opposed to the Helms-Burton Act which provides for legal actions against foreign companies with investments in Cuba. Sir Leon Brittan, EU trade commissioner, who will be attending the summit, called the act extra-territorial and in breach of the US's international obligations;

● The EU is worried abont pending legislation sponsored by Republican Senator Alfonse D'Amato of New York relating to trade with Iran and Libya, judged to be rogue states by the US. Europeans, which have close commercial ties with Iran, favour a critical dialogue;

● The Europeans are unhappy about US pressure to renew the US-Japanese semiconductor trade agreement which expires in late July and which Brussels judges to be discriminatory;

● The US has withdrawn from multilateral trade negotiations on financial services and telecommunications, and is about to pull out of talks on maritime shipping.

President Clinton: retreat from multilateral negotiations on financial services, telecommunications and maritime trade

The EU hopes that after the November election, the new administration will regain its margin of manoeuvre and be an active player ahead of the Singapore ministerial meeting in December, the most important trade summit aince the end of the Uruguay Round.

Commission officials said this week that the EU would not wish to put too much pressnre on the White House before the election. "We just need a signal that they underatand our problem."

One option is to ask Mr Clinton to use his executive powers to grant a waivar of Title Three of the Helms-Burton Act, thus allowing foreign investors to deal in Cuban buildings and property. Mr Clinton must exercise this right by July under the law.

Despite the trade friction, EU and US officials in Brussels stress that the underlying relationship remains solid. Last week'a Nato summit in Berlin signalled an important step towards accommodating the European desire for a more prominent role in a reshaped alliance.

In Bosnia, the US and Europe are co-operating on the Nato peace-keeping mission and civilian reconstruction.

Commission officials said it was too early to assess the broader transatlantic agenda which commits it to 160 joint actions on issues ranging from lifting barriers against Palestinian exports from Gaza and the West Bank to an early warning system for tracking killer viruses, and organising humanitarian aid to Africa and the Cancasus.

OECD EXPORT CREDIT RATES

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for June 15 1996 to July 14 1996 (May 15 1996 to June 14 1996 in brackets).

D-Mark	6.46	(6.32)
Ecu	6.80	(6.90)
French franc	6.67	(6.87)
Guilder		
up to 5 years	5.85	(5.80)
5 to 8.5 years	6.75	(6.75)
more than 8.5 years	7.65	(7.55)
Italian lira	6.75	(9.41)
Yen	3.40	(3.40)
Peseta	9.53	(9.64)
Sterling	8.56	(8.56)
Swiss franc	5.25	(5.05)
US dollar for credits		
up to 5 years	7.27	(7.11)
5 to 8.5 years	7.48	(7.30)
more than 8.5 years	7.66	(7.48)
Belgian Franc	7.42	(7.38)
Australian dollar	9.61	(9.40)
Irish punt	7.84	(7.84)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

Deputy PM issues warning to Japan

By David Wighton at Westminster

Mr Michael Heseltine, the deputy prime minister, yesterday launched a strong attack on over-regulation of the Japanese economy which be claimed hurt both UK and Japanese companies.

He also warned that Japan may be unable to sustain its world lead in manufacturing in the face of the challenge from its Asian rivals. Japan would have to make the same adjustment Britain had in terms of a shift from manufacturing to services and increase its investment overseas.

In his speech to the Japanese Chamber of Commerce in London, Mr Heseltine also launched a defence of the UK's investment performance, arguing that the level of investment had been similar to other leading industrial countries while its quality had improved faster.

He announced the publication of a government paper designed to counter the "fallacies and apocryphal evidence" used by its critics.

He claimed that Japan could learn from the experience of the UK over the past decade, during which it had concentrated on liberalisation and deregulation.

"If one looks across the Japanese economy, at the high cost of transportation, of telecommunication, of electricity, then it is not difficult to see why companies in Japan are under increasing competitive strain."

He admitted that his call for Japan to increase the speed of deregulation was not disinterested. "In many areas where UK firms are strong – such as financial services and insurance – their ability to compete in the domestic Japanese market is limited by the rules and procedures which stifle competition and enterprise."

However, commenting on the speech, Mr John Prescott, the opposition Labour party's deputy leader, said it was "barefaced cheek" for Mr Heseltine to "lecture Japanese business on investment and skills".

Meanwhile, in a speech to the Cranfield School of Management, Mr Tony Blair, the Labour leader, renewed his attack on the UK's investment record and the government's alleged neglect of manufacturing.

"I do not believe it is possible for Britain to trade its way into the future primarily as a service-dominated economy relying on banking, insurance and international brokering. A robust manufacturing base is a crucial element in a modern competitive economy."

● Matsuura, the Japanese machine tool company planning its first UK factory, is more than doubling its spending on the project.

The company is planning to increase its investment to £10.7m ($16.37m) partly because the company has increased its projections for likely exports, particularly to the US.

Toyota reshuffles management as capacity doubles

Mr Yukibisa Hirano, managing director of Toyota's UK manufacturing operations since they were founded six years ago, is returning to Japan as part of management reshuffle affecting three positions, John Griffiths writes.

Toyota is starting the second phase of its manufacturing development in the UK, to double capacity to at least 200,000 cars a year at its Burnaston plant in Derbyshire. The expansion is involving Toyota in a £200m ($304m) investment creating 1,000 jobs.

Mr Hirano, who is to become executive vice-president of Karto Anto Works, a supplier of car bodies to Toyota, is being replaced by Mr Toshio Mizushima. Mr Mizushima had been general manager of assembly at Toyota's Tsutsumi plant in Japan. He joined Toyota as an engineer in 1967.

Mr Alan Jones, who joined Toyota's UK operation at its inception in 1990, has been promoted to deputy managing director, and Mr Royan Anthony, who is responsible for Toyota's engine plant in north Wales, has been promoted to director.

Brussels to press for action on companies

By David Wighton

A common European company statute, which would save EU companies an estimated £24bn ($36.7bn) a year, could be agreed by the end of the year in spite of strong British objections, the European commissioner for the single market said in London yesterday.

Mr Mario Monti said that the Commission president, Mr Jacques Santer, would launch a new initiative at the Florence summit later this month in an attempt to get agreement on statute after decades of delay. The statute would greatly simplify the operation of companies across European borders.

But agreement has been blocked because of the requirement in the statute that companies should set up workers' consultation and information committees. This has been unacceptable to the UK which under its Maastricht opt-out has avoided the separate requirement that large companies set up works councils.

Mr Monti admitted the discussions were "still not close to a satisfactory conclusion, to say the least". But one option presented to member states by the Commission was that the workers' consultation requirement be removed from the statute and dealt with under the European works council directive.

Mr Monti said the statute was one of three measures on which Mr Santer would press ministers for a commitment to reach agreement by the end of the year.

The other two are the liberalisation of the European electricity market, which will be discussed by energy ministers on the eve of the Florence summit, and the provision of legal protection to biotechnology inventions. This was blocked last year following concerns about the patenting of human genes.

Commenting on the UK's current policy of non co-operation with the EU, Mr Monti said he was "very, very concerned" at the possibility that Britain's influence over European policy could be reduced. "It would be detrimental, particularly in the case of the single market." He said the current Commission was more in line than its predecessors with Britain's stress on open markets.

He stressed that the Commission was anxious to ensure more effective enforcement of existing rules rather than increase tbe burden of regulation. "That means being parsimonious in terms of producing new legislation and when we have to to be very respectful of the principle of subsidiarity."

Mr Monti described the EU's single currency as "a key complement" to the single market "in order to extract from it all of its potential".

But he added that be would not be prepared to accept any "fragmentation" of the single market depending on which countries join a singla currency. "The singla market has to stay one market."

N Ireland talks grind to halt over Mitchell's role

By John Kampfner and John Murray Brown in Belfast

Northern Ireland's all-party talks ground acrimoniously to a halt yesterday as pro-British unionist parties refused to accept the appointment of former US Senate majority leader Mr George Mitchell as chairman.

Day two of talks billed by the UK and Irish governments as the best chance yet to forge a new constitutional arrangement for the region ended even more gloomily than the opening session.

So worried were the governmeots of a breakdown that Mr Dick Spring, the deputy prime minister of the Irish Republic, delayed his departure to the US where he was to accompany Irish president Mrs Mary Robinson on an official visit.

The nine Northern Ireland parties and the two governments managed to meet in plenary session for only 15 minutes in the early morning before having to adjourn.

Officials did not hide their frustration that the Reverend Ian Paisley of the hardline Democratic Unionist Party and Mr Robert McCartney of the UK Unionists had decided to demonstrate traditional unionist muscle at such an early stage of the proceedings.

By the evening, tempers began to flare. Mr Paisley said an Irish minister, whom he would not name, had told one of the delegates there would be "bodies on the streets" if Mr Mitchell was rejected. The insinuation was that the IRA would resume violence in earnest. A senior Irish official denounced Mr Paisley's claim as "gross distortion" and "black propaganda".

British and Irish officials admitted that what few hopes had been invested in the negotiations were dissipating with the refusal of the IRA to restore its ceasefire and the obduracy of unionists on questions of procedure.

After their theatrical performance on Monday, Sinn Féin leaders chose not to turn up outside the gates of Castle Buildings in east Belfast yesterday. The antics of the three main unionist groups were likely further to discourage the IRA from restoring its ceasefire. This is the condition both governments have set for the participation of Sinn Féin in the talks.

Left: a masked actor working for Sinn Féin outside the talks, from which the party is excluded, impersonates the fiercely anti-nationalist Rev Ian Paisley. Right: the real Paisley

The procedural wrangle over agendas and ground rules that dogged the second day of Northern Ireland's round-table peace negotiations yesterday disguises a dangerous battle of wills among pro-British politicians in the region, John Murray Brown writes from Belfast. The Ulster Unionists, led by Mr David Trimble, are seeking to outflank the more uncompromising anti-nationalist Democratic Unionists of the Rev Ian Paisley, with Mr Robert McCartney's UK Unionists egging them both on. Officials are confident that no party at this early stage wants to be seen to walk out. But as one Irish government official put it: "Everyone wants to have the last word."

The argument centres on the role of Mr George Mitchell, the former US Senate majority leader put forward by the Irish and British governments as an overall chairman of the negotiations. Unionist strategists are adamant that his remit must be adjusted to circumscribe what they see as his discretionary powers to influence the progress of talks. "Both the Irish government and the SDLP [the constitutional nationalist Social Democratic and Labour party] are indicating that it is George Mitchell or nothing. No one puts a gun to my head," said Mr McCartney.

Mr David Trimble, the Ulster Unionist leader, said last night he expected the differences could be resolved today over Mr Mitchell, who is a close aide to President Bill Clinton and seen by unionists as biased towards nationalists.

Mr Ian Paisley junior, a member of his father's delegation, outlined their party's uncompromising stand: "The longer we can drag this out, the more it will dawn on Mitchell that he should pack his bags and go home."

● In London, a 32-year-old man was remanded in custody in connection with last February's Docklands bombing which broke the ceasefire and killed two people.

MPs question Bosnia deadline

By Bernard Gray, Defence Correspondent

Nato troops are likely to remain in Boania after the December 20 deadline for withdrawal, according to the House of Commons defence committee. Howaver, the committee argues that the force is likely to be smaller than the current 60,000 troops, and that it is important for US troops to remain if others are to stay in Bosnia.

The comments, which come in the latest Defence select committee report, echo the thoughts of senior British commanders, who argue that the departure of all Nato troops is likely to lead to renewed fighting. This represents a significant change from the original Dayton peace accord, which specifically called for a one-year Nato presence.

Admiral Leighton Smith, the Nato commander in Bosnia, acknowledged recently that not all Nato units would have left Bosnia before the December 20 Dayton daadline, but that they would be moving towards withdrawal. Mr Michael Portillo, the UK defence secretary, said yesterday that December 20, "is the day when the operation ends and I would anticipate that the ending of IFOR would lead to a withdrawal of troops over weeks and possibly months after that".

Senior British officers argue that a final decision on withdrawal will not be made until after the US Presidential election in November. However, they stress that US ground troops would have to remain for British forces to stay.

The Commons committee suggests that the forces in Bosnia could be cut to about a third of their current strength and still effectively deter fighting.

MPs are, however, concerned about the drain which the Bosnia deployment is placing on UK forces, and the cost of the operation on the MoD's budget. The committee notes that the size of the UK commitment to Bosnia would have prevented another large deployment elsewhere, and curtailed UK involvement in a joint exercise with the US this spring.

About £300m ($459m) will be spent in the calendar year 1996 by the MoD over the normal cost of keeping the forces in home base. The committee says this suggests that either the UK commitment to Bosnia is too great, or the army is too small and calls for a debate on the subject.

Trade policies of 'Fortress Europe' attacked

By Bruce Clark, Diplomatic Correspondent

Mr Malcolm Rifkind, the UK foreign secretary, made a strong attack last night on the European Union's trade policy towards the ex-Communist and developing nations, calling it over-protectionist and sometimes absurd.

In a speech to London's annual diplomatic banquat, Mr Rifkind implicitly rebuked Britain's EU partners and the European Commission by portraying the Union's record in this area as one of hypocrisy and lost opportunities.

Singling out tha EU's attitude to tha central and eastern European nations which aspire to join the bloc, he said "the economics of Bedlam, the politics of Fortress Europe" were leading to tough curbs on that region's farm exports.

Mr Rifkind said the Union imposed "amazingly petty" restrictions on foodstuffs and other products from its east European neighbours, despite its declared policy of encouraging those countries to rationalise their economies.

"If we really want to help them adapt to the rigours of the market, how can we justify keeping Polish lettuces or Bulgarian strawberry jam out of western Europe?" he asked.

The foreign secretary, who has singled ont the issne of freer trada since taking office a year ago, also lent support to Sonth African complaints about the commercial package it is being offered by the EU.

He deplored the fact that the European Commission, under pressure from the Mediterranean member states, was excluding from its talks with South Africa such products as maize, veal and fruit which held great promise for the economy. Mr Rifkind also accused the EU of double standards in its treatment of its neighbours in tha Middle East and north Africa, which had been promised a total of £4bn ($6.12bn) worth of aid by the end of the century.

"Our rhetoric is all about creating prosperity and stability, but the reality is bickering over Moroccan cut flowers and Tunisian olive oil," he told the London diplomatic corps.

UK NEWS DIGEST

Stock exchange replaces chief

The London Stock Exchange yesterday ended five months without a chief executive by appointing Mr Gavin Casey, chief administrative officer for international equities at brokers Merrill Lynch. Mr Casey will replace Mr Michael Lawrence, who was dismissed in January after clashing with many of the exchange's largest members.

The appointment caused surprise in the City of London. Mr Casey was deputy chief executive of County NatWest, the investment banking arm of National Westminster Bank, at the time of the 1987 Blue Arrow scandal, in which the markets were allegedly misled about the result of what was then the UK's largest-ever rights issue. Although four City advisers were found guilty of rigging the market in Blue Arrow shares, their convictions were later overturned on appeal.

Mr Casey was not criticised by Department of Trade and Industry inspectors appointed to investigate the Blue Arrow affair. He denied accusations by defence lawyers that he decided to "run for cover" when the affair became public. Mr Casey himself strongly rebutted that accusation yesterday. "I did not accept it and I still wouldn't," he said.

George Graham and John Mason

More rail lines for sale

The final five state-owned passenger train franchises in the national network were offered for sale yesterday. Seven of the 25 franchises are already in private hands while bids have been invited for a further 13 routes. Details of the final five are now available to prospective bidders. The five range from high speed lines such as InterCity West Coast between London and Scotland to local networks including North London Railways. Mr Roger Salmon, franchising director, said: "This year has seen sustained progress on the rail franchising programme. The first two privately operated services started in February and have since been followed by five more, bringing 40 per cent of the network, in passenger revenue terms, under private management."

Prospective bidders for the final five franchises have until July 12 to register an interest. The government hopes to complete the sale of the passenger franchises by March 1997, ahead of the final May deadline for an election.

Charles Batchelor, Transport Correspondent

Insurers contest US ruling

Lloyd'a of London and other insurers plan to appeal against a Texas court ruling late on Monday forcing them to pay $250m to Exxon in compensation for clean-up costs incurred by the oil group after the 1989 Exxon Valdez oil spill. After including legal costs and interest, the insurers are expected to face a bill of about $350m. About a third would be borne by Lloyd's with the rest spread among more than 100 other insurers worldwide. The court ruling was the latest in a series of rows over Exxon Valdez clean-up costs. A dispute over another part of the insurance coverage was earlier this year settled out of court for $300m by London-based insurers. However, the insurers could still face a $500m damages claim for acting in "bad faith". It is not clear whether this case would be heard before this appeal on this week's case.

Ralph Atkins, Insurance Correspondent

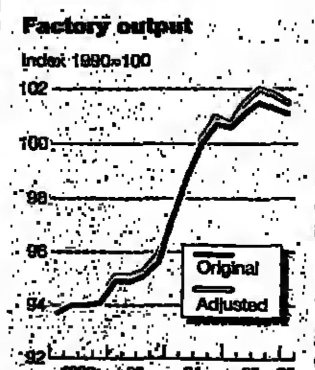
Jobs accusation rejected

Mr William Waldegrave, chief secretary to the Treasury, rebutted claims that Britain's economic recovery had created jobs only for "hamburger-flippers" rather than in highly skilled and highly paid occupations. He told the American Chamber of Commerce in London that two-thirds of the jobs created in the UK since autumn 1993 had been in industries paying above the average wage for the economy as a whole. "The charge that a flexible labour market does not produce good quality jobs is not borne out by the evidence", Mr Waldegrava said. Since autumn 1993 more than half the jobs created had been full-time.

Mr Waldegrave based his analysis on the methodology of a US study by President Clinton's Council of Economic Advisers. But this study has been criticised in some quarters for presenting an overly rosy picture. British critics argue that although many jobs have been created in industries which on average pay relatively high wages, that does not mean that the newly created jobs themselves pay relatively high wages.

Robert Chote, Economics Editor

Factory output falls



Factory output fell sharply in April as manufacturers met demand from the storeroom shelf rather than stepping up production. But the Office for National Statistics conceded that it had been underestimating output in the past. Manufacturing output dropped by 0.3 per cent in April, the biggest decline for five months. Output now stands below the average for the first three months of the year, suggesting industry may be on course for a third successive quarterly decline. Statisticians said the underlying trend in manufacturing was flat, as it was last month. Output in the three months to April was the same as in the preceding three months. The latest monthly figures were accompanied by widespread revisions to past data, extending back to the end of 1992. Manufacturing output has been revised upwards throughout 1993 and 1995 and – to a lesser extent – 1994. As a result manufacturing growth for last year as a whole has been revised up from 1.9 to 2.2 per cent.

● Construction orders rose by one per cent in April compared with March, the second consecutive monthly increase to be announced by the Environment Department. The medium term trend in orders, however, was still downwards with the total value of orders in constant 1990 prices falling by 9 per cent in the three months to the end of April compared with the previons three months. The department said that the three-monthly figures provide a better guide to performance as monthly figures could vary greatly.

Robert Chote

The 'mad cow' crisis Obstruction at culture ministers' meeting raises number of Brussels measures blocked by Britain to 78

EU veterinarians increase demand for slaughter of cattle

By Caroline Southey in Brussels, Alison Maitland in London and Neil Buckley in Luxembourg

Britain faces unexpected demands from veterinarians in the European Union to kill more than the planned 80,000 cattle to eradicate BSE or "mad cow disease". The call, expected to come from EU vets meeting in Brussels to discuss Britain's selective slaughter policy, will create fresh tensions between Britain and the EU as the two sides try to find an end to the three-month old beef crisis.

Mr Douglas Hogg, tha British agriculture minister, said yesterday that the UK was not prepared to kill more than the 80,000. "I don't want to move from that position," he said. "Eighty thousand is the right number. It targets those cattle that one can reasonably say are at most risk of developing BSE."

EU officials said the EU vets would demand that the UK government extend the programme, including the slaughter of whole herds which had large numbers of BSE cases. Agreement on Britain's culling policy is seen as a vital precondition to a deal between the UK and the other EU member states on the terms of a step-by-step lifting of the export ban on British beef.

Mr Jacques Santer, European Commission president, said he was confident of a deal before the European summit, a view echoed by Mr Hogg who said the chances of agreement were "better now than a week ago".

Mr Hogg said Britain had a draft agreement which it was discussing with the Commission. But EU officials said there were dangers that Britain was asking for too much detail which would delay agreement. "Everybody knows that it would impossible to come up with all the details between now and Florence," one official said.

A senior Italian official involved in the negotiations said the presentation of the framework document "was a good step forward but it was not enough - we must find a way to improve that framework."

Mr Mario Monti, European commissioner for the single market, warned in London that the beef crisis could damage Britain's standing in the EU in the long-term. "People will remember who was the cause of the crisis," he said.

An EU diplomat said that the "first element of the framework" would be EU approval of the culling programme. Britain cannot implement the plan until it has had the approval of the EU's standing veterinary committee which EU officials said was unlikely to happen before the European summit in Florence on June 21 and 22.

Britain has already been forced to double its original plan to slaughter 42,000 cattle. Mr Hogg said in April that the number of animals killed would probably be "in the low tens of thousands".

Mr Hogg has also backtracked on a pledge to go ahead with the slaughter if both parliament and the UK farming industry agreed. He said that only parliament's approval would be needed.

British farming unions and vets' leaders are opposed any extension of tha slaughter beyond the original 42,000. But EU member states such believe a more comprehensive slaughter programme is necessary to eradicate BSE.

Britain could also be urged to extend the present policy - under which cattle born between 1991 and 1993 and on the same farm as cattle identified with the disease would be slaughtered - to cover cases in cattle born in 1989.

The UK's non co-operation policy came under fire as Britain blocked four measures at a culture ministers' meeting in Luxembourg, and a measure relating to industry due to be rubber-stamped by ministers - taking the total number of initiatives blocked to 78.

The government's beef assurance scheme will initially target high-quality older cattle for the domestic market rather than for export, Mr Douglas Hogg, agriculture minister, said yesterday, Alison Maitland writes. The plan is to exempt specialist beef herds, fed only on grass or cereal supplements, from the ban on cattle over 30 months entering the food chain. Before the ban, quality beef cattle of well over 40 months were being slaughtered for meat.

Mr Hogg hoped meat from such animals would subsequently go for export under a phased lifting of the EU's worldwide ban. "If they're certified, there's also no reason why they shouldn't be under 30 months, for the purpose of relaxing the ban." The UK government aims to establish a register of several thousand beef herds under the scheme's stringent criteria by the end of July. The herds, mainly located in Scotland, Northern Ireland and upland regions of England and Wales, would need to have had no cases of BSE.

ARTS

Television/**Christopher Dunkley**

This is the house that Birt built

Those on the gundecks of the BBC have always been pretty gloomy about the direction and methods adopted by the officers on the poop deck. But this week the clouds of doubt and fear hanging over many BBC offices are thicker than they have been in 25 years as staff struggle to come to terms with the latest plans for reforming the corporation. To many of them the scheme said to be designed to meet the needs of the age of digital broadcasting, announced at a press conference in Broadcasting House, London, last Friday, looks so radical that they have had to revise their attitudes towards the last set of changes.

The term "Year Zero" had been used to describe the revolution introduced by "Producer Choice". This system obliged BBC producers for the first time to cost all their internal services, allowed them to buy services outside if they could do so more cheaply, and, supposedly, introduced real market forces to what is, still, a public service organisation operating under Royal Charter and financed by the licence fee.

Producer Choice was the brainchild of John Birt who had been in control of programmes at London Weekend TV, one of the largest companies in Britain's commercial television system. Birt was known as a keen broadcasting theorist as well as a programme administrator and was, it was widely believed, recruited to the BBC at a high level in a deliberate attempt to inject non-corporation thinking and modern management techniques. His chairman at LWT was Sir Christopher Bland, who has recently been appointed chairman of the BBC, and it was Bland who announced last Friday that his old colleague, Birt, had agreed to extend his contract and remain as BBC director-general until the year 2001. Perhaps "2001" will become the *annus mirabilis* for the gloomy.

Under the new plan, called "A Structure For The Digital Age", BBC programme production will be separated for the first time from commissioning and scheduling. This will mean that instead of a BBC network controller such as Alan Yentob at BBC1 choosing, making, and scheduling his own programmes, there will be an arrangement much more like that adopted by Channel 4 and subsequently by ITV – something like the system used by book publishers, with the creative side operating separately from administration.

This is anathema to old BBC hands who have always expected broadcasting administration to be taken on by gifted programme makers. Many of them, secretly or quite openly, yearn for the BBC to be led by a charismatic figure such as John Tusa, who is ebullient, articulate, inspiring, humorous, and – even though he rose as high as managing director of the World Service – still capable of writing and presenting widely admired programmes such as his recent Radio 4 series *20/20*. On Monday Tusa published a scathing attack on the new plan in which he declared:

"Tolling like Donne's bell, the words efficiency, resources, focus and the rest of the clichéd lexicon of management analysis sound the death of Reith's BBC. From now on, *this is the house that Birt built*, and it will be extraordinary if it lasts for a fraction of the 75 years that Reith's did."

Of the change to the World Service, which by common consent he himself revivified and re-inspired, Tusa said "It is the biggest act of bureaucratic vandalism ever committed. Some of us will never forgive those who did it." The change provides for all future programme making in English for the World Service to come under a centralised programme production body and all World Service news and current affairs under BBC News.

The corporation is to be split into six major divisions: BBC Broadcast which will do the commissioning and scheduling; BBC Production which will make the programmes; BBC News; BBC Worldwide, responsible for the World Service and for generating commercial income; BBC Resources providing programme support services; and The Corporate Centre which will handle strategy, policy and so on. Deep anxiety has already been expressed over the effect that this radical reorganisation will have upon the standing of domestic radio as well as the World Service.

Liz Forgan, the last managing director of British network radio, who not long ago suddenly left the BBC without giving any reason, will not be directly replaced. Instead the news and sport channel Radio 5 Live will become the responsibility of BBC News, while Radios 1,2,3 and 4 will be represented on a downgraded board of management by Matthew Bannister who will continue in his main job as controller of Radio 1. Above the board of management will be a new executive committee consisting of the director-general and the heads of the six new divisions plus the directors of personnel and finance.

Of course it may all work splendidly and mean that the BBC, born in the age of wavelength scarcity, will not merely survive somewhat astonishingly as one of the last great examples of public service into the age of digital superabundance, but will even flourish. It may. But there are those who see "A Structure For The Digital Age" as the largest and most ominous shift yet away from an almost exclusive concentration on programme-making at the BBC to a fixation on management structures, all described in what the satirical magazine *Private Eye* calls "Birtspeak". We heard a classic example at Friday's press conference: "We have to have a focus for considering how we will manage our gateways".

It would be a fool who denied that the BBC must do something to prepare for the utterly different world of broadcasting which is approaching, even if it is not approaching quite as fast as people have been telling us for the past 25 years. Changes in broadcasting have always been technology-driven (from radio to television, monochrome to colour, the coming of viewer control via the video recorder, wider choice thanks to satellite and cable) and one way or another there will be even more major expansion and change during the next 20 years. The BBC's central problem is finance: politicians will not sustain the licence fee for ever in an age of superabundance.

So will the BBC slip quietly into commercialism? Over two decades successive chairmen and directors general of the BBC have told me, in rejecting the idea of advertising on Radio 1 (or any other marginal introduction of commercialism) that "You can't get a little bit pregnant". Now we are told that, thanks to digital expansion, the BBC will be providing "themed commercial channels for those prepared to pay extra". Asked on Friday what effect this would have on the argument, Sir Christopher calmly asserted that the corporation intended to stay "just that bit pregnant".

Margaret Tyzack (left) and Maggie Smith: splendidly right for Alan Bennett's infinitely subtle, wholly English satire

Theatre/**Alastair Macaulay**

Supremely cast 'Talking Heads'

In *Talking Heads*, Alan Bennett's marvellous talent for satire – charitable, malicious, ironic, funny, touching, infinitely subtle, wholly English – is at its height. Yet, however interesting Bennett is here and though here he is at his best, Maggie Smith is yet more so.

Under Bennett's direction, she and Margaret Tyzack are playing two of the six *Talking Heads* soliloquies – he originally wrote for television in 1989. Tyzack first. Splendidly right for *Soldiering On*, she gives a beautiful performance in which we hardly know where she starts or where Muriel – a woman newly widowed in her late fifties, whom Tyzack brings to life here – stops.

In this solo, Bennett develops the Joyce Grenfell kind of monologue in which a woman reveals herself as if by accident, sometimes surprised by her own thoughts, artlessly funny in her expressions, helplessly open in exposing the interior workings of her own life. Gradually, Muriel reveals – to us, if not to herself – that her beloved son is a conniving fraud; and, more slowly, she comes to show, and to recognise, that her mentally disturbed daughter was the victim of her father's (Muriel's late husband's) abuse. Bennett here does some superlative feats of stream-of-consciousness talk, in which startling disclosures suddenly loom up out of nowhere in mid-flow.

The monologue is a little too audience-orientated, both as written and as directed, but Tyzack perfectly shows how Muriel's valiant stoicism was always part and parcel of her system of denial; denial about her relationships with husband, son, daughter, life. The only flaw in her excellent performance is that her utterance, especially in her sibilants, is too close to Joyce Grenfell (in "Lumpy Latimer" mode); and that she fractionally over-prolongs the otherwise extraordinary, wordless climax in which her face grows heavy with the consciousness, for so many years postponed, of what her husband did to her daughter. At the end, she insists loudly that she is not the tragic type. Bennett, I think, means to show that, here again, she is in denial. Actually, she is right. Muriel, however beleaguered, is too pragmatic to be tragic.

In *Bed Among The Lentils*, Maggie Smith somehow does attain something nearer tragic heights. Which is perverse, for the character she portrays is more bitter, petty, sarcastic. She is Susan, a vicar's wife and an alcoholic who finds herself embarking on adultery with an Indian grocer, and discovering, for the first time, the joy of sex and then the odyssey of teetotalism. And the solo surpasses almost all Bennett's other work because Susan shows the full moral sense of her own dilemma. Mendacious, hypocritical, irreligious though she is, Susan is deeply concerned in her unhappy way with honesty, with religion and with self-fulfilment.

Though Smith is often known as a mannered actress, she is in fact here – as so often – exceptionally economical. Everything in her Susan is converted to expression – her very eyes and mouth become lopsided, as if portrayed by Picasso – but everything is brisk, laconic, and often wonderfully ambiguous. Our other two supreme actresses, Judi Dench and Vanessa Redgrave, are not Bennett types because they excel in the very largeness of soul and vitality of temper which are alien to his spirit. But Smith is ideal for his writing because she combines both his charity and his malice, and because her skill in acting is like that of a surgeon, laying bare the crucial details of a character's mental anatomy.

She is gloriously funny (as those nasal, chesty tones declare "If you think squash is a competitive sport . . . try flower-arranging") and she is deadly in her descriptions of her husband (his slow diction in church "giving you time to mean each phrase") or of the deity ("God has no taste"). But she rises to Bennett's best, in her washed-out account of her Indian lover, in which she becomes virtually inexpressive in surprise. Spontaneity, for once, has entered her life.

Eventually, even here, Bennett's conception of character is too pat, too spiritually limited, to delight me; and he does too little to create a world beyond entertaining us with the virtuoso satire of his vision. As an anatomist of Britain in decline, he is superb, and in *Talking Heads*, he gives brilliant vehicles to both Tyzack and Smith. Yet, though they show him at the top of his form, he does not show them at the top of theirs. Tyzack has a vehemence, Smith a lyrical grandeur, that Bennett cannot express.

In repertory at the Minerva Theatre, Chichester.

Medieval view of the Old Testament

Part of what is touching and impressive about the mystery plays staged in York is, surely, what was always touching and impressive about them when they were first presented there in the late medieval era. Presented as they used to be by the city's guilds, they involved a large community of amateur performers in a community project that was both serious and splendid; and that is still true today, when they are presented for one season every four years.

There is also the pleasure of the text. That used in 1996, adapted by Liz Lochhead (revised from her 1992 version) for John Doyle's new staging, is extensively based on the original medieval texts, rich with rhymes, alliterations, and turns of phrase that are strange today to ears unattuned to Chaucer, *Gawain and the Green Knight*, and Malory's *Morte d'Arthur*.

But the loveliest aspect of the 1996 York mystery plays is the designs. These are the conception of Mark Bailey, who also designed the excellent and imaginative set for the Theatre Royal's staging of *A View from the Bridge* that I reviewed in March. His set there placed the Carbone household within the framework of the Brooklyn Bridge. Here he re-creates numerous scenes and images from medieval and Renaissance and subsequent art. The Old Testament seems to come to life again in the mosaics on the walls at Monreale; the backdrop glows in shifting hues and forms that evoke Blake; the Last Supper evokes Leonardo.

And, most wonderful, the angels – up to 12 of them – are those from the Wilton Diptych, in blue robes, with high swan-like white wings rising from their backs and the final feathers tinged with blue. Bailey has also given them golden-blonde hair and very soft, partly invisible, golden haloes. In Doyle's staging, these angels are witnesses and participants in many of the scenes from Testaments Old and New.

We are not just watching scenes from the Bible in this production; we are watching and hearing them through a rich filter of historical tradition. The opening sentence is in Latin; old carols are used; phrases like "Nay, certes" and *Gawain*-type alliterative lines such as (God on the fallen angels) "These fools from their fairhood in fantasy fall" and (Christ at the Last Supper) "This is my corse, no common crust" abound; the angels dance and play musical instruments. And yet many of these devices are brought up to date. The violins that the angels play are not period instruments, but modern; Herod says such lines as "Kaisers in castles great kindness me owe", and we see people in modern dress putting on "period" robes before our eyes. (Here and there, this is taken to excess. The Virgin Mary as a hospital nurse in a white uniform ending above the knees looked unfortunately naff.) Pontius Pilate wears a purple drape over an orange trouser suit.

There have already been, according to the programme, several experimental pieces of casting in previous productions. God has been the foreman of a building site, a small boy, a disembodied voice; in 1988, Christ was played by a Hindu. This year's innovation was to have God played by a middle-aged woman, a device against which I have nothing in theory. In the event, however, she kept reminding me of Peggy Woolley in *The Archers*: a slow and laborious fun-spot, often bemused by goings-on. Nor could everyone else in the large cast cope fully with the demanding verse. Whether it was Lochhead or the actor in question, it was foolish of Abraham to exclaim "Dear Christ!" in Abraham's day. Christ hadn't been invented.

New pleasures in the tale of tales in the 1996 York Cycle of Mystery plays

But these flaws are drops in the sea. The 1996 York Cycle of Mystery Plays is a great achievement. As it tells its selected highlights from the Bible, it asks you to compare and contrast God's creation of Adam, Jesus's raising of Lazarus, God's test request of Abraham to sacrifice Isaac, and God's sacrifice of his own son. (Or, in this context, her own son.) New dramatic ironies within the tala of tales fall into place.

A.M.

Theatre Royal, York, until June 30.

INTERNATIONAL ARTS GUIDE

ATLANTA

EXHIBITION
High Museum of Art
Tel: 1-404-733-4400
● Picturing the South, 1863-1996: this photography exhibition examines tha facts, contradictions and myths that hava shaped the cultural heritage and psychological identity of the South of the US, and the influence they have exerted on the imaginations of artists for more than a century; Artists represented include George N. Barnard, Lee Friedlander, Walker Evans, Harry Callahan and John McWilliams; from Jun 15 to Sep 14

BASLE

EXHIBITION
Kunstmuseum Basle
Tel: 41-61-2710228
● Canto d'Amore. Klassizistische Moderne in Musik und bildender Kunst 1914-1935: exhibition focusing on classicist modernism in music and visual arts. The display features more than 100 paintings, drawings and sculptures from international museum and private collections. The show includes works by Picasso, Matisse, De Chirico, Dali, Bonnard, Maillol and Léger; to Aug 11

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Rundfunk-Sinfonieorchester Berlin: with conductor Mario Venzago and violinist Christiane Edinger perform works by Henze, Szymanowski and R. Schumann; 8pm; Jun 14
EXHIBITION
Berlinische Galerie - Martin-Gropius-Bau Tel: 49-30-254860
● Michael Schmidt. Fotografien seit 1965: retrospective exhibition featuring photographs by Michael Schmidt (b. 1945) from 1965 to the present. The city of Berlin, in which the artist has lived all his life, plays an important role in his work; from Jun 14 to Sep 8
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Le Nozze di Figaro: by Mozart. Conducted by Dorian Wilson and performed by the Deutsche Oper Berlin. Soloists include Eva Johansson, Fionnuale McCarthy, Camille Capasso and Russel Braun; 7pm; Jun 13

BOLOGNA

CONCERT
Teatro Comunale di Bologna
Tel: 39-51-529901
● Ein deutsches Requiem: by Brahms. Performed by the Orchestra del Teatro Comunale di Bologna with conductor Christian Thielamann. Soloists include soprano Amanda Halgrimson and baritone Wolfgang Schöne; 8.30pm; Jun 13, 14

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-9171200
● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents tha important stylistic developments from the 9th to the 19th century. On display are 190 objects of sacral art, mainly scroll-paintings (tangka) and ornate metal sculptures, but also application work and tapestries as wel as wooden, ivory and stone sculptures with a strong religious expression; to Aug 25

CHICAGO

EXHIBITION
Terra Museum of American Art
Tel: 1-312-664-3939
● A Shared Heritage: Art by Four African Americans: this exhibition of 20th-century African-American art features works by William Edouard Scott, John Wesley Hardrick, Hala Aspecio Woodruff and William Majors. The exhibited works include about 65 paintings, watercolours, drawings, collages and graphics; to Jul 7

COPENHAGEN

MUSICAL
Gladsaxe Theatre Tel: 45-31676010
● Hans Christian Andersen Musical: by Flemming Enevold, to music by Sebastian. Directed by Flemming Flindt and performed by the Gladsaxe Teaterkor. The cast includes Flemming Enevold, Lise Nees, Nis Bank-Mikkelsen and Jesper Vigant; Mon - Fri 7.30pm, Sat 7pm; to Aug 3 (not Sun)

HAMBURG

DANCE
Hamburgische Staatsoper
Tel: 49-40-351721
● Hamburg Ballett: perform a choreography by John Neumeier to Mahler's Symphony No.9. Soloists include Janusz Mazon, Bettina Beckmann and Anna Grabka; 8pm; Jun 14

LONDON

CONCERT
St. John's, Smith Square
Tel: 44-171-2221061
● BBC Singers and the Matrix Ensemble: with conductor Robert Ziegler perform works by Copland, Cage and Feldman; 7.30pm; Jun 14
Wigmore Hall Tel: 44-171-9352141
● Joan Rodgers: accompanied by pianist Roger Vignoles. The soprano performs songs by R. Schumann, Poulenc and Rosenthal; 7.30pm; Jun 13
EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● Arts and Crafts Architecture: coinciding with the V&A'a major William Morris exhibition, this display tells the story of the development from the 1850s of an approach to domestic architecture which matched the arts and crafts ideals of William Morris. The display includes work by Philip Webb, Norman Shaw and C.F.A. Voysey; to Sep 29

LUBECK

CONCERT
Musik- und Kongresshalle
Tel: 49-451-7904115
● NDR Sinfonieorchester: with conductor Sir Georg Solti perform Beethoven's Symphony No.3 (Eroica), and the NDR Chor perform Brahms' Motets Op.29, No.2 and Op.74, No.1, and Schoenberg's Friede auf Erden, Op.13; 8pm; Jun 15

MADRID

EXHIBITION
Fundación la Caixa
Tel: 34-1-4354833
● El grupo CoBrA en la colección del Stedelijk Museum de Amsterdam: exhibition of some 80 paintings and sculptures by members of the Cobra group; to Jun 30

NEW YORK

MUSICAL
Richard Rogers Theater
Tel: 1-212-307-4100
● How to succeed in business without really trying: by Frank Loesser. Directed by Des McAnuff and starring Matthew Broderick as J. Pierrepont Finch, the window washer who climbs his way up tha corporate ladder in record time by following the guidelines in his trusty handbook; Tue - Sat 8pm, Sun 3pm, Wed, Sat also 2pm; to Jul 14 (not Mon)
THEATRE
Brooklyn Academy of Music
Tel: 1-718-636-4111
● Le Misanthrope: by Molière (in Swedish, with English surtitles). Directed by Ingmar Bergman and performed by The Royal Dramatic Theatre of Sweden. The cast includes Lena Endre, Thorsten Flinck and Jarle Kulle; 8pm; Jun 11, 12, 13, 14

PARIS

CONCERT
Maison de Radio France
Tel: 33-1 42 30 22 22
● Orchestre Philharmonique de Radio France: with conductor Arturo Tamayo perform works by Petrassi, including Concerto for Orchestra No.8, and Stravinsky's Apollo Musagetes; 9pm; Jun 13
EXHIBITION
Fondation Cartier pour l'Art Contemporain
Tel: 33-1 42 18 56 50
● Les Oiseaux: this exhibition explores the universe of birds as depicted from some of man's earliest art through the most recent experiments in contemporary art; from Jun 14 to Sep 15

VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Koninklijk Concertgebouworkest: with conductor Riccardo Chailly and violinist Frank Peter Zimmermann perform works by Berg and Bruckner; 7.30pm; Jun 13

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

هكذا من الاصل

Edward Mortimer

A place at the centre

Turkey's political balance of secularism and Islam and its strategic geographical position make it hard for the west to ignore

For the second time this year Necmettin Erbakan, leader of the Islamically oriented Refah (Welfare) party, is trying to form a Turkish government. So what?

Turkish politics have failed to grip the the outside world's imagination. There was a flutter of interest at Mr Erbakan's election victory last December. But even that interest faded as Turkish politicians settled down to their usual prolonged horse-trading.

After two months a minority coalition of Turkey's two main liberal-conservative parties was formed, with external support from Bülent Ecevit, the veteran leftwing leader. Mr Erbakan and his party remained in opposition. The Turkish establishment, including the ever-powerful armed forces, had (it seemed) never really been prepared to contemplate any other outcome, and probably never would be.

Now the coalition has collapsed after less than 100 days in office, and the merry-go-round has begun again. One of the coalition partners was happy to vote with Mr Erbakan to have the leader of the other investigated. The other, in return, was ready to vote with him to bring the government down. If Turkey's own political leaders are not worried, why should anyone outside Turkey be? Do we really care what happens to Turkey anyway?

In the cold war, of course, it was axiomatic that Turkey mattered. It was Nato's south-eastern flank, through which the alliance partially encircled the Soviet Union, placing a barrier between Moscow and the Arab world. But in 1989, when the cold war ended, it looked for a moment to some western politicians as though Turkey might not matter after all.

Events soon proved that wrong.

● In 1990 Saddam Hussein seized Kuwait. Turkey was transformed overnight into a crucial member of the US-led coalition against him, blocking one of his main oil export routes and enabling western aircraft to attack Iraq from the north as well as the south.

● In 1991 the Soviet Union broke up. The US decided to foster Turkish influence among Turkic-speaking peoples in the Caucasus and central Asia as an antidote to that of revolutionary Iran.

● In 1992 Turkish public opinion was mobilised in favour of the Moslems in Bosnia, a former Turkish province with a large Moslem population and an important diaspora in Turkey itself, while many Greeks sided with their Serb co-religionists. So far the conflict has not spread southwards, bringing in Greece and Turkey, as many western pundits feared, but tensions between the two are evident in the Aegean.

● Meanwhile Turkey and Syria have been in sharp dispute over the Euphrates waters, and over Syrian support for Kurdish insurgents on Turkish territory. In February this year Turkey signed a military co-operation agreement with Israel, abandoning its traditional neutrality in the Arab-Israel conflict.

Thus Turkey is surrounded by four major conflict zones: an uncomfortable position, but one which makes it difficult for the west to ignore. Nor can the west forget that Turkish troops still occupy northern Cyprus, propping up a would-be independent Turkish Cypriot state which only Turkey recognises.

> In 1989, when the cold war ended, it looked for a moment to some western politicians as though Turkey might not matter after all

For 20 years western governments have left this problem to fester in the lap of the UN, which has sponsored endless rounds of inconclusive talks between Greek and Turkish Cypriot leaders. But now the EU is committed to start membership negotiations with Cyprus six months after the end of the present intergovernmental conference – probably early in 1998. If Cyprus is still divided, these talks will be held with a purely Greek Cypriot government, controlling only three-fifths of the island, although legally they will affect the whole of it.

And Cyprus cannot be reunited until there is a Turkish government strong enough to overrule the armed forces (which are determined to keep a garrison on the island), to impose its will on the wily and obstinate Turkish Cypriot leader Rauf Denktaş, and to ride out a barrage of criticism in the Turkish media. No such government is in sight, least of all one containing Mr Erbakan, who as a junior partner in the government in 1974, when the troops were sent to Cyprus, argued in favour of occupying the whole island.

But Turkey is not just a piece of strategically situated real estate. It is one of the world's big emerging markets, and the annual holiday destination of more than 6m Europeans. It is a country of 60m people, nearly half of whom can be categorised as middle-class consumers, and now in a customs union with the European Union. It is the EU's 10th-biggest trading partner, and Russia's second. It has Europe's sixth-largest stock exchange.

Although its record is blemished by many human rights violations, Turkey is also a rapidly developing society with free and lively news media. Its current political crisis reflects, if anything, an excess of democracy rather than the reverse, as political leaders strive to outwit each other in full view of those who elected them. Besides being a Nato ally, Turkey is a long-standing member of the Council of Europe and a signatory to the European Convention on Human Rights. It is also an associate member of the EU and the Western European Union, and aspires to full membership of both.

No other Moslem state, except possibly Malaysia, functions as democratically as Turkey, and none has gone as far in espousing secularism. Many liberal Moslems would argue, indeed, that the founder of the Turkish republic, Mustafa Kemal Atatürk, went too far in that respect, and that Mr Erbakan's effort to reinstate Islamic values is at least partially valid.

Panic is not in order. If Mr Erbakan does succeed in forming a government he will be dependent on one or more coalition partners, and will take great care not to provoke the army by any frontal assault on Turkey's secularist tradition. On balance it may be better that he take office now, incurring a share of responsibility for managing Turkey's economic crisis, than be allowed the luxury of building up support while further coalitions of squabbling and unprincipled politicians are patched together for the sole purpose of keeping him out.

A few more months of that could alienate enough voters to give Mr Erbakan an outright majority in the next parliament. And then Turkey's secular elite and armed forces would confront a dilemma similar to that faced by their Algerian counterparts in 1992, when the army intervened to stop the Front Islamique du Salut winning an overall majority in parliament.

If Turkey were to turn its back completely on western models, or were to sink, as Algeria has done, into a bloody stalemate between a secularist military regime and radicalised Islamic militants, the shock throughout the Moslem world, and throughout Europe, would be profound.

LETTERS TO THE EDITOR

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IMF policy may not aid Georgia

From Mr Darrell Slider.

Sir, Having just returned from Georgia, I was struck by your article on economic stabilisation in that country ("Georgians balk at paying price of recovery", May 22). While the economy is obviously on the mend after a disastrous hyperinflation, energy crisis and civil war, part of the current problems with corruption and low tax collection stem from International Monetary Fund policies themselves.

With the apparent blessing of the IMF, Georgian public employees, including the police and bureaucrats in all sectors, are paid less than the minimum needed to survive. Even at the top of the bureaucracy, government ministers are paid the equivalent of $25 per month while consumer goods prices have reached world levels.

This is an open invitation for corruption. Many bribes are for the purpose of covering up the real scope of economic activity in the country so that an ever-growing percentage of economic activity is "off the books" (and untaxed). This situation parallels what was happening under Soviet rule in Georgia where the black market was deeply entrenched.

Politically, the pervasiveness of corruption means President Eduard Shevardnadze can easily remove any disloyal subordinates without searching very hard for a pretext. Thus, the apparent stabilisation could have profoundly negative effects on Georgia's political and economic development – by facilitating the underground economy and preventing the rise of an effective civil service.

Darrell Slider,
associate professor of government and international affairs,
University of South Florida,
Tampa, FL 33620, US

Time for Italy to consider widening the use of privatisation funds

From Mr Daniel Castelnuovo.

Sir, In Italy, revenues from privatisation are set aside in a special fund, to be used for the sole purpose of buying back outstanding public debt. This was stipulated in a law passed by parliament in late October 1993, a piece of legislation which still is considered one of the best examples of far-sighted debt management and good accounting practice.

Yet, the time has perhaps come to reconsider the issue. The debt/gross domestic product ratio has actually fallen to an estimated 120 per cent of GDP, the old guard of spending-prone politicians has apparently been replaced by more cost-conscious and competent people. They seem to command, and deserve, enough credibility to be left to decide freely how to use the funds coming from privatisations.

Moreover, the fast approaching implementation of Emu calls for swift action on public deficit reduction toward the target of 3 per cent of GDP. And, given that Italy enjoys a primary (non-interest payment) surplus of around 5 per cent of GDP, the country's determination to reduce the deficit by 1997 or 1998 at the latest is credible.

In the present situation of a sharp economic slowdown and lira appreciation, privatisations to raise, say, L15 trillion (0.75 per cent of GDP) would merely make good part of the cyclical slowdown while stabilising the lira in the forex market. Given the present institutional and economic framework, would it not be wise to suspend the provisions of the 1993 law until Italy's entry into the Emu?

Daniel Castelnuovo,
chief economist,
Banca Euromobiliare,
Milan,
Italy

BA alliance will enlarge competition

From Mr Robert Ayling.

Sir, Richard Branson's letter challenging BA's proposed alliance with American Airlines (June 11) ignores the fact that the air transport industry is already changing in response to demand from consumers. The US government has already granted anti-trust immunity to three major alliances linking large US carriers to our competitors in continental Europe. The British aviation industry, which has led the world in so many ways, must stay ahead.

The alliance between British Airways and American Airlines which we announced today will bring clear benefits to the consumer in a wider choice of routings and departure times as well as frequent flyer benefits. It will be closely scrutinised by the US authorities and we are confident that it will be approved, as a significant enhancement of competition. We are calling on the governments for further liberalisation of the US-UK aviation market to give both countries' airlines the ability to compete for business to any destination in either country. I am surprised and sorry that Virgin is apparently unwilling to join us in promoting this enlargement of competition.

Robert Ayling,
chief executive,
British Airways,
Heathrow Airport (London),
Hounslow TW6 2JA, UK

Competition in which countries have role

From Mr Mark H.J. Radcliffe.

Sir, Professor John Kay's article "Clear thinking muddied by competitiveness" (June 7) classically reflects the problem of effective dialogue between business and economists.

It is correct that it is primarily companies which have to be competitive internationally rather than countries. However, the task is made harder or easier if the nation within which the company operates is itself competitive, measured against other countries which house competitors. After all, government spends about 40 per cent of the gross domestic product produced by wealth creating industries. It is easier to win world orders if that 40 per cent is spent effectively, enabling better education, infrastructure, law and order, healthcare etc., versus countries which host competitors.

Furthermore, there may be differences between wars and international business, and between national and international companies. But, clearly, it is pretty miserable to live in a country which keeps losing battles or orders, and better if they are winning.

Thank goodness Michael Heseltine, the deputy prime minister, and the government have been working better with a reinvigorated business community facing these issues together. Hopefully, more economists will help make a creative contribution to a better standard of living and sustain the UK as a desirable country in which to live, work or play.

Mark H.J. Radcliffe,
The Malt House,
Upton, Near Andover,
Hampshire, UK

Exploitation of a ritual

William Dawkins on corporate Japan's links with the underworld

It is tempting to conclude from the recent arrest of three senior executives of Takashimaya, a Japanese equivalent of Harrods, that the mob still holds some of Japan's most prestigious companies in its thrall.

The three were yesterday being questioned by Osaka police over allegations that they paid a record Y80m ($730,000) – and possibly many times more – to a well-known group of *sokaiya*, or corporate racketeers, not to disrupt annual shareholders' meetings.

Mr Hiroshi Hidaka, Takashimaya's president, yesterday resigned at an emergency board meeting. He had little choice. Founded in 1831 as an upmarket kimono boutique in the ancient capital of Kyoto, Takashimaya has a distinguished brand name to protect.

But the embarrassment goes beyond Takashimaya, and has raised broader questions over possible shortcomings in Japanese corporate governance. Mr Shoichiro Toyoda, chairman of the Keidanren economic federation, underlined this yesterday when he called on all leading companies "thoroughly to re-examine their behaviour".

There is more at issue than red corporate faces. *Sokaiya* have continued to wield clout, despite 14 years of attempts to put them out of business, because their raison d'être has not changed.

"They survive by exploiting a gap in the Japanese system of corporate governance – that companies generally don't pay much attention to shareholders," explains Mr Peter Tasker, chief strategist at Kleinwort Benson, the UK merchant bank, in Tokyo.

A typical shareholders' meeting will be short and bland. Management is spared the penetrating questions endured by their US or UK counterparts. Loyal staff will be planted in the crowd to shout "*ryokai*" – the formal form of "understood" – as the chairman briskly reads through a slim agenda. "They are ritualistic occasions, of no importance to serious investors. *Sokaiya* exploit that by disrupting the ritual," says Mr Tasker.

Sokaiya gain entry to shareholders' meetings by buying small parcels of shares, often via a front company. Takashimaya's suspected extortionist, Mr Isao Nishiura, the leader of a prominent Osaka gangster group named *Gokuraku-kai*, or paradise club, bought 10,000 shares through a dummy civil engineering contractor.

If not paid off, *sokaiya* have been known to use tricks ranging from the childish to the sinister. These include hurling chairs at the podium, filibustering and pestering aged board members with pointed questions about corporate, and even personal, misdemeanours.

There is no suggestion that Takashimaya had dark secrets to hide, and Mr Hidaka denies advance knowledge of the payments. But the size of the pay-off does invite the question of how the paradise club could exert such hefty leverage.

While startling, the Takashimaya case is only one of many examples of corporate Japan's ambivalent links with the underworld, going back to the beginnings of the country's economic expansion after the second world war. During that time, relationships between *sokaiya* and companies have changed in a way that reveals much about the evolution of Japanese capitalism.

Mr Mitsuru Shinozaki, a member of the Keidanren's international office, points out that *sokaiya* were originally hired by companies to ensure that shareholders' meetings took place without fuss. This was part of a deliberate attempt to stifle any shareholder opposition to the companies' strategy of keeping net profits and dividends low to retain maximum earnings for investment in fresh capacity. "In a way, *sokaiya* were needed for companies' success," Mr Shinozaki argues.

But all that changed in the 1980s when Japanese companies – increasingly successful and eager to present a respectable image to foreign shareholders – found the *sokaiya* an embarrassment. Dividends remain tiny by international standards but *sokaiya* have become a burden rather than a help.

A dramatic example of the risks of resisting the *sokaiya* came at the 1985 annual meeting of Sony, the consumer electronics group; it lasted for 13 hours after *sokaiya* deserted the board and stirred up a revolt by angry wholesalers, disappointed by poor sales of the group's ill-fated Betamax video recorders.

The first official attempt to purge the *sokaiya* came in 1982 with a revision of the commercial code outlawing, for the first time, payments to racketeers. But the penalties were – and remain – minor: culprits have so far received suspended sentences.

Admittedly, the number of *sokaiya* at work has since fallen from a peak of 6,800 to around 1,000 now, according to the police. But many former *sokaiya* are thought to have branched out into more sinister forms of extortion, feeding on Japan's worst recession for 60 years.

These include seeking to stop bank managers from collecting bad loans – believed to have been the reason for the shooting two years ago of an executive of Sumitomo bank, an aggressive loan collector.

Anecdotal evidence and a series of legal cases suggest that even the *sokaiya* who did stay in business, rather than going into violent extortion, have been busy.

The president of Ito Yokado, Japan's second largest supermarket chain, for example, resigned three years ago after two executives were charged with paying Y27m to gangsters. The chairman of Kirin, the country's largest brewery, stepped down a year later to acknowledge responsibility for four officials' illicit *sokaiya* payments of Y46m.

Those to have fallen foul of the commercial code in the 1980s include Isetan, another department store, and Sumitomo Marine and Fire Insurance. Retailers, it is said, are especially popular *sokaiya* targets because of their need to show a clean image to a large customer base.

Most companies recognise that Japanese law is unlikely to frighten the mob away. Their response has been to try to outwit *sokaiya* by holding annual meetings on the same day. On June 27, 1,380 Tokyo Stock Exchange listed companies and 2,200 groups overall – more than twice the number of *sokaiya* groups – will be inviting shareholders to review annual accounts.

Corporate Japan should have little to hide after a year in which listed companies' pre-tax profits have risen by 23 per cent. But if bona fide shareholders should want to ask testing questions, they will get little chance. That is why the TSE last month urged Keidanren members to stagger their annual meetings. But the appeal has fallen on deaf ears.

The danger is that Japanese boards, in trying to outsmart extortionists, will preserve the very rituals on which *sokaiya* have thrived.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday June 12 1996

Competition in the clouds

The proposed alliance between British Airways and American Airlines is a landmark event. As the aviation industry's biggest international link-up yet, it is important both in its own right and because it is likely to stimulate similar deals between other carriers. It has also exposed a worryingly large grey area – if not a black hole – in regulatory policy on both sides of the Atlantic, particularly in Europe.

The case for a thorough examination of the deal on competition grounds is compelling. Though the two carriers claim to account for 27 per cent of total air traffic between the US and the European Union, that measure is dubious. Not only does it include many routes served by neither airline; but the EU cannot be regarded as one market while transatlantic aviation policy is decided by individual member states.

The relevant markets in this case are, surely, the routes between the UK and US, and between London and New York. The two carriers account for 60 per cent of traffic on the former and 70 per cent on the latter. Furthermore, the scope for competitive entry is severely restricted by scarce slot capacity at Heathrow, the airport of choice for transatlantic passengers to several European destinations in addition to the UK.

The deal depends, of course, on the US transportation department granting it anti-trust immunity. That decision will turn largely on whether the UK agrees to US demands to negotiate an "open skies" agreement which would benefit US carriers. Competition policy enforcement is likely to take a low priority – as it has in the US domestic airline market since it was deregulated.

Across the Atlantic, there is also a risk of a policy vacuum. The UK Office of Fair Trading may be empowered to refer the deal to the Monopolies and Mergers Commission only if it deems it to be a merger. That is uncertain, since no exchange of equity is involved. The European Commission, for its part, has clear authority only to vet agreements affecting intra-EU airline traffic. It might also find it hard to intervene after nodding through a broadly similar deal between Lufthansa and United Airlines.

Yet too much is at stake for the authorities simply to stand back. If the OFT cannot investigate the alliance, ministers should insist the MMC examine and clear it before deciding whether to negotiate an "open skies" agreement. The EU, meanwhile, needs urgently to clarify and extend the Commission's remit in aviation. That is necessary not just because industry concentration is accelerating, but because – as current US policy demonstrates – competition is still shaped at least as much by the exercise of government power to promote producer interests as by genuine market forces.

Better schools

Education policy in England has reached a curious pass. Both main parties see votes to be won on the state of England's schools and are madly jostling for advantage. In the past this has been a poor omen. Yet despite the politicking, both parties are moving in broadly the right direction, their collective judgment clouded by less ideological claptrap than at any time in the last 30 years.

The predicament of England's schools can be simply stated. There is too much failure and too little excellence. As Mr Tony Blair rightly said last week, equality must not become the enemy of excellence. Alas, it has been for several decades, under the malign policy of mixed ability secondary teaching in comprehensive schools, launched against often bitter parental opposition by Labour in the 1960s.

It is not all the fault of the comprehensives. England's rigid class system, the low esteem of non-academic instruction, and the non-professional attitude of too many teachers and their unions, have played their part, notably in stimulating the comprehensive experiment in the first place. Whatever the precise causes, the legacy is stark. The professional classes have exited from the state system en masse, while barely 40 per cent of 15 to 16-year-old pupils last year achieved five GCSE passes of at least grade C.

A wholesale return to grammar schools is no answer. The last thing England's state secondary sector needs is another revolution on top of the last two (comprehensives and the national curriculum), although there should be no question of abolishing the remaining 160 grammar schools. Reformist energies ought to be directed in four channels, towards

- more setting and streaming by aptitude within comprehensives, a practice which is already widespread;
- greater specialisation by schools in areas such as technology and languages, which again is in train;
- raising the quality and status of vocational education, a process started – but no more – with the new General National Vocational Qualifications; and
- improving the quality and esprit de corps of England's 500,000-strong teaching force.

The leaderships of both parties have effectively signed up to this package. A forthcoming government white paper will propose more selection, but the emphasis will be on an incremental increase in the proportion of pupils which individual schools are allowed to select, not a top-down imposition of a new structure on all localities.

Mr John Major is keen to offer voters the prospect of a grammar school in every town. Provided this is an option not a diktat, no harm will be done. The danger lies in the Tory right's obsession with vouchers and wholesale selection, and in the hostility of many Labour activists to anything smacking of elitism. These disruptive voices should be kept firmly at the back of the class.

Job jitters

The much-ballyhooed rise in job insecurity around the developed world puts sitting governments in a bind. If leaders ignore the issue, voters – especially middle-class ones – will judge them insensitive and out of touch. Yet admitting that insecurity has risen on their watch suggests that their economic policies have failed to deliver the goods.

William Waldegrave, the UK's chief secretary of the Treasury, tried to square this circle yesterday in a wide-ranging speech on labour market issues to the American Chamber of Commerce.

In essence, Mr Waldegrave suggested that the government has every reason to be proud of recent developments in the labour market. People clearly felt less secure but this perception, he said, did not match up to the reality.

The speech was peppered with supporting statistics to the effect that the upturn had seen as many "good" jobs created as bad ones. For example, 45 per cent of new jobs created since autumn 1993 have been in categories that pay 1¼ times average gross earnings.

Data of this kind can be misleading. President Bill Clinton's Council of Economic Advisers recently produced similar figures for recent US job growth. On closer inspection, it turned out that although a large share of new jobs were in categories earning above average wages, the actual jobs themselves had been largely concentrated in the lower, often below-average, part of the wage scale.

Similar health warnings apply to some of Mr Waldegrave's other claims. He stated, for example, that the charge that the UK labour market produced only part time jobs was also not borne out by the facts. Yet, as the Bank of England noted in its latest inflation report, taking the starting point of the beginning of the recovery in spring 1992, the labour force survey suggests that full-time employment has "barely increased" while part-time work has risen by 12 per cent.

It is a pity that Mr Waldegrave decided to underplay the changes in the labour market that have occurred in recent years because the broad thrust of his speech was correct.

As he said, the greatest challenge facing policymakers today is not the relatively small rise in economic insecurity that has affected the erstwhile highly secure middle classes, but the dramatic decline in job opportunities for the unskilled, and related rise in long-term unemployment.

It takes courage for a Conservative minister to tell the voters of Middle England that insecurity has afflicted them less than they believe. But the government should spend less time dispelling myths about rising economic insecurity and more tackling the reality.

A day for eating words

The two airlines in yesterday's partnership have had to abandon long-held positions to forge their alliance, says Michael Skapinker

The alliance between British Airways and American Airlines, announced yesterday, left some smaller rivals angry and worried about the competitive challenge.

BA and American will be a powerful force. They together control 60 per cent of flights between the UK and the US, 70 per cent of traffic between London and New York, 90 per cent between London and Chicago and all flights between London and Dallas.

"These are two dominant airlines who would together command an enormous share of the transatlantic market," says Mr Richard Branson, chairman of Virgin Atlantic, the independent UK carrier. "It's hard to believe any rational government acting in the interests of the consumer would allow this to happen."

For all their power, BA and American concluded their deal as a way of defending themselves against forces in the aviation industry they could no longer control. Rival airlines in both the US and Europe have been busily concluding similar alliances, while their governments have been signing liberal "open skies" agreements which allow airlines from one country to fly freely to any point in the other.

For years, BA has resisted the tide of liberalisation which threatened its position at London's Heathrow, where it holds 38 per cent of take-off and landing slots. It has fiercely opposed the scrapping of Bermuda II, the UK-US aviation agreement concluded in 1977. The agreement lays down details of which airlines can fly between specified US and UK cities, the number of flights they can operate and, even, in some cases, the types of aircraft they can use.

Mr Gerald Greenwald, chairman of United Airlines of the US, has called the agreement "the worst mistake in the history of US international aviation relations", because of the restrictions it places on US carriers' ability to use Heathrow airport and to fly to third countries.

As little as three months ago, Mr Robert Ayling, BA's chief executive, disagreed. Bermuda II, he said, was "a model agreement". More embarrassing, he attacked the recently strengthened alliance between United and Lufthansa and their application to the US authorities for anti-trust immunity allowing them to work together more closely. "What Lufthansa wants to do is reduce the level of competition by relaxing the anti-trust laws," he said.

American has some equally embarrassing positions to justify. It has fought against the trend towards code-sharing agreements, under which an airline sells seats on another carrier's flights. This allows airlines to put their two-letter flight codes on flights operated by another airline and thus to sell tickets on routes they do not serve.

Mr Robert Crandall, its chairman, has been particularly critical. "We think code-sharing is inappropriate because it is based on misleading consumers into believing they are buying one thing while selling them another," he told the American Chamber of Commerce in London last year. "Code-sharing is profoundly anti-competitive and, in the long term, will inevitably reduce the number of air carriers competing for your business.

"When airlines team up and code-share, they are able, by means of pretending to be a single carrier, to force other, non-combined carriers out of a market. When this happens . . . consumers lose all the many benefits of competition."

Both BA and American have had to retreat. BA has indicated it is now in favour of "open skies". American has entered the biggest code-sharing alliance ever.

So many rival airlines have concluded transatlantic code-sharing deals that American was in danger of being left out. Among the alliances formed in recent years are those between Northwest Airlines of the US and KLM of the Netherlands, and between Delta Air Lines and Swissair, Sabena of Belgium and Austrian Airlines. Delta also has a code-sharing agreement with Virgin, Mr Branson's complaints yesterday notwithstanding.

"We have reached the conclusion that if we can't beat them, we had better join them," the American chairman said last year. Yesterday Mr Crandall could even see virtue in code-sharing. The deal between American and BA would, he said, improve customer choice and increase competition.

By the time American realised that it was being left behind there were few large European partners left to choose from. American is believed to have examined the possibility of an alliance with Air France, but was put off by the carrier's financial and labour problems.

BA already had a US partner in USAir, in which it has a 24.6 per cent stake. The UK airline said the link with USAir brought it benefits of $130m last year in additional traffic. But USAir also has financial and labour problems. And the US government has not granted the anti-trust immunity to BA and USAir which would have allowed them to co-ordinate their operations more closely. BA was clearly in the market for an additional US partner; American, in a far healthier financial condition, was available.

To conclude the deal, however, BA had to drop its opposition to a UK-US open-skies agreement. The US said anti-trust immunity would be granted only to airlines from countries which had concluded open-skies agreements.

Yesterday BA and American said they would ask for anti-trust immunity and called on the UK and US governments to negotiate a new, liberalised aviation agreement to replace Bermuda II. If BA is prepared to see Heathrow opened to competition and US airlines allowed to fly to third countries from the UK – as it says it is – its alliance with American is likely to be approved.

How effective the alliance will be depends on the extent to which the two airlines can, in Mr Crandall's words, mislead consumers and persuade them that they are flying on one airline rather than two. The two airlines plan to change their schedules to ensure that customers changing from one airline to another can do so conveniently.

This means BA passengers arriving at a large US city and changing to an American flight to a smaller US destination should find it easier to do so. American passengers arriving in London to change to a BA flight will also be able to do so more easily. The two airlines have said they will, wherever possible, operate from the same terminal at an airport, to make transfers between the two carriers easier.

More difficult than co-ordinating schedules will be ensuring the relationship endures. BA and American said yesterday they expected their agreement to last "indefinitely".

The deteriorating relations between KLM and Northwest, however, indicate that maintaining a transatlantic relationship is difficult. The two airlines, long regarded as model partners, are embroiled in a legal dispute which many expect could lead to the unravelling of their alliance. KLM has taken legal action over Northwest's adoption of a "poison pill" scheme to prevent the Dutch airline raising its stake from 18.8 per cent to 25 per cent.

The aviation industry has long believed that an alliance between BA and American would be difficult because of the prickly personalities heading the two carriers. Mr Crandall and Lord King, BA's former chairman, were both strong characters used to getting their own way. Observers doubted that Mr Crandall and Sir Colin Marshall, Lord King's successor, would get on any better.

They believe that the key to yesterday's announcement was Sir Colin's decision last year to become non-executive chairman, and the upgrading in Mr Ayling's role from managing director to chief executive. Although Mr Ayling has proved a tough manager, he is seen as more approachable and personable than his predecessors.

Mr Ayling agrees his ability to establish a rapport with Mr Crandall was a significant factor. "Personally, I get on with him very well," he says. "It's always a factor. If people don't get on, it's difficult to reach an agreement."

Mr Ayling said one reason BA and American would get on better than KLM and Northwest was that BA and American had decided to take no equity stakes in each other's companies. This is a departure for BA. In addition to its share in USAir, BA has a 25 per cent stake in Qantas of Australia and owns just under 50 per cent of Deutsche BA and TAT of France.

Indeed, BA has long argued that holding an equity stake in a partner was the key to a successful alliance. But yesterday was a day for demonstrating how easily airline executives eat their words.

· OBSERVER ·

Case of the missing veto

■ Guessing when the British government will block EU business is enough to test the canniest mind. Take at a look at Monday's stormy meeting of EU foreign ministers in Luxembourg. Malcolm Rifkind, UK foreign secretary, held up 16 decisions but let through three agreements with Algeria, Slovenia, and aid to Bosnia.

The Foreign Office admits that the Algeria decision was a pay-off to France. President Chirac, a sounder ally than Chancellor Kohl in the beef war, is under fire from opposition socialists, so it was time for a concession. As for Slovenia, Britain has long backed an agreement which offers hope of future EU membership for the former Yugoslav republic. The Berlusconi government in Italy held up the accord in an effort to press property claims in the Istrian peninsular, ceded to Slovenia after 1945. With a new leftwing Italian government led by Romano Prodi offering more flexibility, a British veto would have risked wrecking a deal ready wrapped for the Florence summit.

And the third case of the missing veto – against aid to finance the elections in Bosnia-Herzegovina due in September? Here things get complicated. British officials in Brussels were adamant on Friday night that the UK block would stand, but shifted over the weekend. The word is that Carl Bildt, the man charged with civilian reconstruction of Bosnia, lodged a strong appeal. His advisers are Pauline Neville-Jones and Michael Maclay, who were top aides to Douglas Hurd, Rifkind's predecessor. The pair, in Luxembourg on Monday, were far too diplomatic to state the obvious: things were never this bad under Douglas.

No contest

■ German employers' leader Klaus Murmann has given way at the 11th hour and spared Unice, the European employers' federation, the novelty and embarrassment of a contested vote for its new leader.

The BDA, the Cologne-based association of German employers federations, announced yesterday that its boss, the 64-year-old Murmann, had withdrawn as a candidate for the Unice job. Instead, he would back the French incumbent, François Perigot, 70, for another two-year term of office, starting next year.

Yesterday's move means that Perigot's election, to take place in Rome on Friday, will follow the time-honoured pattern: it will be undisturbed by the uncertainties of multiple candidates, or the thrill of the hustings.

Murmann's self-sacrifice is all the greater because he announced his intention of giving up his current job months ago, so confident was he of sliding quickly across to Unice. The BDA selected Dieter Hundt, a metal industry executive, as his successor. Then, three months ago, Hans-Olaf Henkel, the head of the neighbouring Cologne-based German industry federation, the BDI, declared that he would not support Murmann for Unice. And the game was lost.

However, Murmann need not worry about being unemployed from the end of this year. He is expected to pick up several honorary functions in the gift of the German employers' organisation. And he will spend more time with the family, er, engineering company.

Our friend Gerry

■ Excluded he may be from the peace talks, but Gerry Adams continues to get an adulatory press in the US. In a front page headline on Monday, The New York Times dubbed him the "Ulster Pinot", and spent more than 2,000 words setting out his views on the "best bet" for peace.

The account opens with the Sinn Fein leader sitting "in a patch of sunlight", in a yard "caged by a double barrier of metal fence" much as if the heavens were shining down on him in his grim travails. The photograph, of a small child looking up eagerly at him, is captioned "Adams greeted by admirers in Belfast".

The piece challenges him, as it should: "Have you ever pulled a trigger or been directly responsible for loss of life?" (Answer: "I think we have all been in situations where we have directly contributed".) But the indulgence is striking, particularly the chunk devoted to the beauties of South Armagh: "You run through rain, and then the sun comes out, the hedges were sprouting, and there was all the colors and the greenery". All there to be enjoyed, if only.

Adams laments that "we have buried scores of our own people and family members". In contrast, the piece describes the bomb in London's Canary Wharf in February simply as "a setback both for peace and for him". Some would think the death of two unconnected bystanders in the blast a relevant fact.

Set of one

■ Just as well the flotation of Mediaset, Silvio Berlusconi's television and publishing empire, was off to a slow start. By mid-afternoon yesterday, only a handful of hacks had pitched up at Mediaset's central Milan headquarters to examine the small print of the full [illegible] greater interest would have taxed the media group's resources – as there was just one spare copy available for public perusal.

Financial Times

100 years ago

New Zealand Prosperity

Wellington:- Parliament was opened to-day with the usual ceremonies. In his Speech, the Governor said the finances of the colony continued to be sound, and there was a substantial surplus of revenue over expenditure. There was also ground for congratulation in the improved condition of affairs, the general prosperity in all parts of the colony and the rise in the price of staple produce. The revival of gold mining had been a most noteworthy feature. The great mineral wealth of the colony was attracting the attention of capitalists in all parts of the world.

50 years ago

New Head Of U.S. Treasury

Mr. Vinson has now been transferred from the Treasury to the Supreme Court, and has acquired during his relatively brief period of office a reputation for hard bargaining. British negotiators found him much more uncompromising than his predecessor, Mr. Morgenthau. Little is known in London about Mr. Vinson's successor, Mr John Snyder, who has not hitherto taken any active part in international negotiations. Mr. Snyder comes from President Truman's state, Missouri – he is a St Louis banker.

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FINANCIAL TIMES
Wednesday June 12 1996

Warmth and wit mark Dole's Congress exit

By Jurek Martin in Washington

If only the other 99 senators could bave voted, Bob Dole would have been elected US president yesterday by acclamation.

Instead, in an occasion marked by sentimentality, reminiscence and humour, he took left the US Congress, his professional home for the last 35 years, for the harder task of persuading the nation that the White House should be his next residence.

It was not an easy moment for the 72-year-old, now ex-Senator Dole, the Republican leader, both in majority and minority, since 1984. He entered the chamber to ringing applause minutes past noon, after both parties had showered him with praise. "A good man and an extraordinary legislator," said Mr Bill Bradley, the Democratic senator from New Jersey who is himself retiring.

There is no new building to bear Mr Dole's name, as others on Capitol Hill thet recall past legends – Dirksen, Russell, Hart and Rayburn. But the little terrace outside the majority leader's office, which he calls "the beach", will be officially known as the "Robert J. Dole Balcony".

In the beginning, he could hardly get a word out. His voice cracked, he sniffed and pressed his thumb against his lips as if to stiffen them. He thanked family, friends, staff and constituents – "the people who send you here and those who tried not to send you here". He thanked his old adversaries in the media "even though you may fall out of your seats in shock".

But when he got around to reminiscing, be gained strength and wit. He saw no distinction between Republicans and Democrats, but only remembered with affection the co-operation of colleagues, regardless of party, in pursuit of the common good.

He praised the Senate's civility and its tradition, unlike that of the House, of allowing unlimited debate. When the 93-year-old Senator Strom Thurmond of South Carolina boasted that ba held the record for filibustering (24 hours and 18 minutes), Mr Dole quipped: "That's why you're seldom asked to be an after-dinner speaker."

Mr Dole is not leaving the Senate to run for president on quite the successful note be would have liked. In the last week he has failed to win passage for the balanced budget amendment, a new missile defence programme and health insurance reform.

But his purpose yesterday was "not to make a partisan speech or even a partisan reference", and this he mostly pulled off.

Perhaps ha was referring to President Bill Clinton when he said that leadership was "a combination of background and backbone", but he did not elaborate. There will be plenty of time for thet in the months ahead – after Mr Dole's last "free lunch" in the Senate dining room.

Democrats object to health insurance deal, Page 6

GM halts Indonesia move over national car policy

By Manuela Saragosa in Jakarta and Haig Simonian in London

General Motors, the world's biggest carmaker, has frozen investment plans in Indonesia until it receives "clarification" about the government's controversial national car policy.

The announcement yesterday by Mr Donald Sullivan, head of GM's Asian and Pacific Operations, marks the strongest criticism yet of Indonesia's plans by a top executive of an international car company.

GM has invested $110m in Indonesia, where it owns 60 per cent of a joint venture with PT Garmak, a local assembler.

The Indonesian government has granted significant tax and tariff concessions to PT Timor Putra Nasional, a local company, to develop a "national" car. PT Timor Putra Nasional, which is working with South Korea's Kia Motors group, is controlled by Mr Tommy Mandala Putra, Indonesian President Suharto's youngest son.

Mr Sullivan's announcement followed strong behind-the-scenes objections from Japan's carmakers, which argue that the Indonesian plan contravenes World Trade Organisation guidelines. Japanese companies dominate the market in Indonesia and assemble a range of vehicles there.

Mr Sullivan said GM had been very disappointed with developments in Indonesia's car project. "We have put our future investment on hold ... because we want to get a better understanding of where the Indonesian government is heading on their policy," he said.

Mr Sullivan did not indicate the scale or nature of the expansion being put on hold. However, industry sources said GM may have been considering raising output or widening its Indonesian model range.

GM's joint venture, which started producing Opel Vectra cars in 1994, now builds Opel Astra cars and Opel-badged versions of the group's US Blazer sports-utility vehicle. Output at the joint venture is expected to reach about 7,000 units this year.

Mr Sullivan said Indonesia had to choose between following Malaysia in developing its own national car or the Thai example of encouraging established carmakers to set up locally.

His comments, mada as GM announced a $750m investment in a new Thai car plant, echoed remarks by Mr Andrew Card, chief executive of the American Automobile Manufacturers' Association, on a recent south-east Asian visit. Mr Card warned that the US "Big Three" carmakers were reviewing their plans for Indonesia in the light of tha government's car policy.

GM in talks with UAW, Page 6

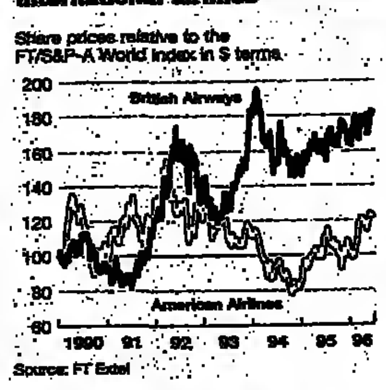
THE LEX COLUMN

Transatlantic tricks

From the muted reaction of British Airways' and American Airlines' share prices, you would be hard pressed to spot that they were setting about creating the world's most daunting airline partnership. Of course, the shares have already had a modest run in anticipation of a deal. And if US regulators cut up rough, there is a slim chance that it may never happen. But against that, investors have to weigh benefits which are potentially huge. Forget the fact that the airlines are not talking up the financial case, let alone the potential to knit together an even closer alliance: given the regulatory quagmire they have to get through they have everything to gain from talking these prospects down at this stage. Start instead with BA's existing link-up with USAir, which delivers cost savings and extra revenues of around £100m a year. Even if it only matched that, the American deal would still add a hefty 15 per cent or so to BA's pre-tax profits. In reality, if should produce more: not only is American bigger than USAir in the US, but the overlap with BA is much greater too.

BA is paying a price: its implicit offer of an "open skies" agreement letting US airlines into London's Heathrow. That BA can play this card, effectively blackmailing the US into approving a deal which has dismal implications for competition, reflects pretty badly on the British government. But the fact is that it can; and from BA's point of view, the American deal is worth it. This is, after all, a low-margin industry in which economies of scale count for a lot even if BA faces more competition at Heathrow, tying up with one of its biggest transatlantic competitors means it is even better placed to fight it.

FT-SE Eurotrack 200: 1730.5 (+7.8)



Source: FT Extel

NatWest

Under the circumstances, National Westminster Bank made a reasonable job of justifying its purchase of Greenwich Capital yesterday. But when investors are hoping for a share buy-back, the acquisition of a bond trading house in a foreign market is bound to be a hard sell.

If you believe in the group's strategy of building up an international investment banking business, it has not done badly so far in what is hardly a buyer's market. The purchase of Greenwich will enhance earnings – and Greenwich's earnings look impressively consistent compared with many of its peers. Furthermore, it has a strong niche position in the US bond market. This will fill in an obvious hole at NatWest Markets, which has been developing equities trading in the US organically and bought in mergers and acquisitions expertise with its recent Gleacher acquisition.

But doubts linger. First of all, a price of more than two times book value is certainly not cheap – even for a company without much capital. More to the point, it is hard to see how NatWest Markets will leverage Greenwich's strengths. It is essentially a trader of US Treasuries – admittedly the world's largest market but also an extremely competitive and mature one. It is not an obvious springboard into, for example, the corporate bond market. Securitisation, Greenwich's other skill, is still only a tiny market in Europe.

NatWest is right to believe that a credible US presence is necessary to make it as an international investment bank. But it is not clear that a strong niche in the government bond market will have substantially advanced that cause.

News International

Profits are only just recovering from the devastating price war, but UK newspapers are back in fashion. Two months after Mr Conrad Black's Hollinger paid £280m to take full control of the Telegraph, Mr Rupert Murdoch's News Corporation is spending just over £500m to sweep up the minority holdings in its News International arm, which owns the Times and Sun titles.

To some extent this is belated housekeeping by News Corporation, which already owned 82 per cent of News International's shares. Mopping them up simplifies the group's capital structure. And by offering News Corporation's preferred shares – which carry limited voting rights – in return, Mr Murdoch does not dilute his family's 31 per cent voting stake or infringe any cross-media ownership rules. But submerging News International into News Corporation will also make Mr Murdoch's empire less transparent. It was already difficult to tell by how much, say, the profitable Sun and Sunday Times subsidised the loss-making Times during the price war. Now there will be even less need for disclosure.

For minority shareholders in News International, however, this looks a good deal. While their new shares will pay dividends in Australian dollars, the fact that shareholders are being offered a 33 per cent premium to the market price – compared with the 20 per cent premium Hollinger paid to Telegraph investors – should swiftly overcome any objections.

Thorn EMI

Thorn EMI's last set of results before its break-up is an up-beat epitaph. Since July 1987, when Sir Colin Southgate became chief executive, the UK's largest leisure conglomerate has had mixed results in reshuffling its sprawling corporate portfolio. The sales of Ferguson and Kenwood were astute, the disposal of Thorn Lighting was less so, and in selling Thames Television, Thorn lost the opportunity of building a much stronger media business. Nonetheless, Sir Colin saw the attractions of music long before the stock market and used TV rental cash flows to strengthen the business. Thorn's 50 per cent stock-market outperformance during his tenure is a just reward.

The timing of the demerger looks auspicious. Operating profits from what will be the separate EMI music and retail business grew 25 per cent last year, and there is a strong release schedule for 1996. Applying the operating profit to sales multiple of fellow European music company PolyGram, the residual EMI business would command a market capitalisation of £5.9bn. At Thorn's current share price, that leaves the rental business trading at a 5 per cent premium to the market, based on historic price-earnings ratios.

However, the rental business is growing rapidly, it generates substantial cash flow, is geographically diverse and will be in the general retailers sector, which trades at a 25 per cent premium to the market. Meanwhile, EMI looks an enticing bid target and is bound to gain a premium rating over PolyGram if only by dint of having no controlling shareholder. The shares should continue to outperform.

China plans convertible yuan to boost business confidence

By Peter Montagnon, Tony Walker and John Ridding in Beijing

China aims to make its currency convertible on the current account by the time it bosts the International Monetary Fund meeting in Hong Kong next year, the bead of its central bank said yesterday.

This would allow anyone doing business with China, or within it, to convert domestic earnings into foreign exchange or back, for any purpose other than investment.

President Jiang Zemin is expected to address the IMF meeting, which will convene a few months after the British colony returns to Chinese rule in July. The meeting, designed to reinforce international confidence in Hong Kong, will mark the first time China has bosted such a prestigious international gathering.

IMF officials have been urging China to bolster its message of confidence by using the opportunity to sign the Fund's Articla VIII which commits members to current account convertibility.

"If all the conditions are met, and we could announce this at the annual meeting of the IMF next year, that would be very good for us," said Mr Dai Xianglong, governor of the People's Bank of China.

Mr Dai added that China would consider a further relaxation of credit later this year if inflation continued to fall. He said preparation for currency convertibility would proceed amid expectations that the exchange rate would remain stable for the rest of 1996 or longer.

China still had no formal timetable for achieving convertibility. It was committed to doing so by 2000 under the ninth five-year plan but it wanted to accelerate the process, he said.

Among steps planned for the second half of this year were an extension of the pilot scheme letting foreign-funded enterprises hold foreign exchange and trade it freely with banks. Currently available in four centres – Shanghai, Shenzhen, Dalian and Jiangsu province – the scheme would be expanded to other regions, be said. From July the central bank also aimed to increase the amount individuals may buy from banks.

Mr Dai brushed aside suggestions from some western economists that the 8.7 per cent decline in China's exports during the first quarter of this year meant its currency was now overvalued. The renminbi yuan, which stands at 8.3 to the dollar, has appreciated against the dollar since the 1994 devaluation, despite China's high inflation rate.

China's $1.2bn trade deficit in the first quarter of this year was dna to delays in paying tax rebetes to exporters, and to beavy imports of capital goods, he said. China was still enjoying a capital inflow which was supporting the yuan exchange rate.

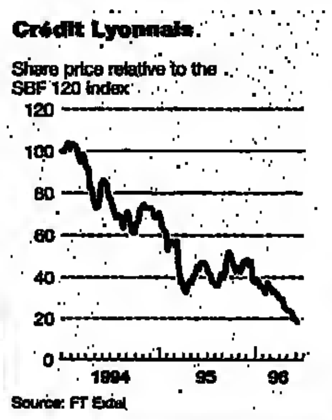
Italy taxation

Continued from Page 1

would be amalgamated into a new regional tax to be collected from every taxpayer, not just from companies.

Mr Visco also bopes his outline proposals will meet some of the demands of federalists and separatists in the north, led by the Northern League, which wants to secede from the poorer south of the country. While an ordinary member of parliament last year, Mr Visco tabled proposals for a reform of the tax system which would give more autonomy to Italian regions.

Crédit Lyonnais loan



Source: FT Extel

Continued from Page 1

suggested that Crédit Lyonnais could report losses of up to FFr900m for 1996. Its net financing costs for the state-backed rescue plan during the current year will be about FFr3bn.

Reporting a loss at the bank would prove politically embarrassing, but the French government is resisting any modifications to the size of the FFr135bn loan or the interest rate payable on it. Any such changes would probably require reopening discussions with the European Commission.

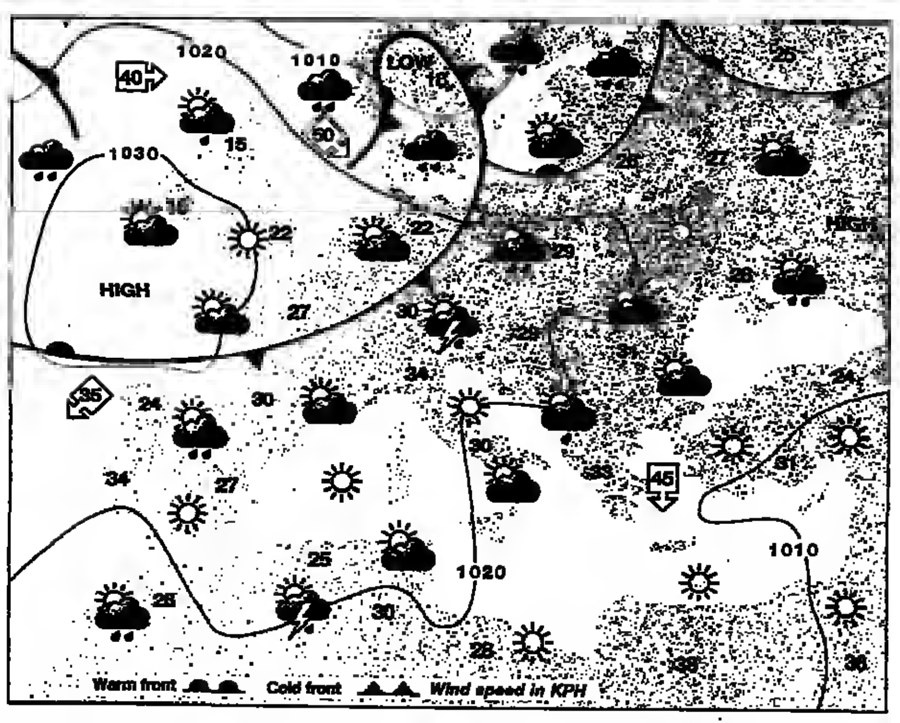
FT WEATHER GUIDE

Europe today

The British Isles will have more sun and lighter winds than yesterday but temperatures will nol be much higher than 15C-20C. The boundary of hot air in eastern and central Europe will push across eastern Germany and central France. Near this boundary, variabla cloud will produce rain and thunder showers in many regions. As a result, the Low Countries will turn much cooler. France will have showers in the south and east and sun will return to western regions. Spain will remain hot in the south but it will be cool with showers in the north. Italy, Greeca, the former Yugoslavia and Turkey will be sunny and warm. Scandinavia will be unsettled with steady rain and strong winds in the south.

Five-day forecast

Cooler air will spread over northern and central Europe as it circulates around an active low pressure system over Scandinavia. Central Europe will have scattered rain and thunder showers on Thursday, followed by sunny and dry conditions. This same progression of showers followed by drier air is due in eastern Europe during the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius

Abu Dhabi	fair	40
Accra	fair	28
Algiers	sun	25
Amsterdam	sun	18
Athens	sun	34
Atlanta	thund	30
B. Aires	sun	23
B.ham	sun	18
Bangkok	fair	35
Barcelona	fair	26
Beijing	sun	32
Belfast	shower	15
Belgrade	sun	32
Berlin	fair	28
Bermuda	sun	26
Bogota	fair	18
Bombay	cloudy	34
Brussels	fair	22
Budapest	shower	32
C.hagen	cloudy	20
Cairo	sun	35
Cape Town	shower	16
Caracas	shower	30
Cardiff	sun	16
Casablanca	sun	26
Chicago	shower	26
Cologne	shower	26
Dakar	fair	28
Dallas	fair	34
Delhi	sun	38
Dubai	fair	39
Dublin	cloudy	18
Dubrovnik	sun	31
Edinburgh	cloudy	17
Faro	sun	28
Frankfurt	thund	30
Geneva	shower	28
Gibraltar	sun	25
Glasgow	cloudy	15
Hamburg	fair	22
Helsinki	shower	22
Hong Kong	fair	32
Honolulu	fair	31
Istanbul	sun	28
Jakarta	cloudy	31
Jersey	sun	16
Karachi	fair	37
Kuwait	sun	45
L. Angeles	sun	24
Las Palmas	fair	26
Lima	cloudy	18
Lisbon	fair	29
London	fair	22
Luxbourg	fair	26
Lyon	fair	30
Madeira	sun	24
Madrid	sun	35
Majorca	sun	29
Malta	sun	28
Manchester	fair	16
Manila	fair	32
Melbourne	sun	14
Mexico City	cloudy	21
Miami	thund	31
Milan	fair	33
Montreal	thund	25
Moscow	sun	26
Munich	fair	30
Nairobi	fair	21
Naples	sun	27
Nassau	thund	31
New York	fair	29
Nice	sun	28
Nicosia	sun	35
Oslo	rain	16
Paris	sun	27
Perth	shower	21
Prague	thund	29
Rangoon	cloudy	33
Reykjavik	sun	11
Rio	fair	25
Rome	sun	30
S. Frsco	sun	18
Seoul	fair	30
Singapore	cloudy	31
Stockholm	shower	22
Strasbourg	fair	30
Sydney	shower	16
Tangier	fair	30
Tel Aviv	sun	30
Tokyo	cloudy	26
Toronto	thund	28
Vancouver	cloudy	20
Venice	sun	31
Vienna	thund	29
Warsaw	fair	29
Washington	thund	31
Wellington	fair	9
Winnipeg	fair	23
Zurich	fair	22

FINANCIAL TIMES
COMPANIES & MARKETS
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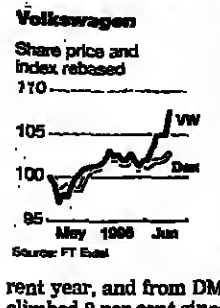
Wednesday June 12 1996

IN BRIEF

UAP in FFr3.2bn property loan sale

Union des Assurances de Paris, France's largest insurance group, said it had sold a portfolio of property loans with a gross value of FFr3.2bn ($615m), in one of the most important deals carried out in the country's depressed market. The transaction, believed to be for just under FFr1bn, was completed with Whitehall, a group of investment funds managed by Goldman Sachs, the US-based investment bank. Page 15

US data lift Frankfurt close to record



In Frankfurt, the Dax index closed a mere 1.58 short of its all-time high at its Ibis-indicated 2,571.10, up 18.14, as weaker-than-expected US producer price data lifted continental European equities. Shares in Volkswagen rose DM5.15 to DM570.55 after Commerzbank raised its earnings per share estimates for Volkswagen from DM30 to DM35 for the current year, and from DM40 to DM45 for 1997. VW has climbed 8 per cent since the end of April. Page 30

Hongkong Telecom shares slip 3%
Shares in Hongkong Telecom slid 3.1 per cent after Monday's sale by Citic Pacific, the Hong Kong-listed arm of Beijing's main domestic and international investment vehicle, of part of its stake in the telecoms group. The buyer of the HK$3bn (US$387.6m) stake has not been identified. Page 14

Berlusconi set to end Mediaset majority
Mr Silvio Berlusconi, the Italian media magnate and former prime minister, should eventually reduce his stake in Mediaset to 47.9 per cent after next month's flotation of the television and publicity company, but only after minority shareholders exercise warrants to buy more shares. Page 15

EDS shares start trading in London
Shares in Electronic Data Systems, the US-based computing services group which manages many government computer systems in Europe and the US, began trading in London following their New York debut on Monday. Page 16

Henderson considers administration sale
Henderson, the UK fund manager, is to make a stand-alone business of its division handling the administration of investment trusts and personal equity plans, with a view to an eventual sale or spin-off. Page 17

Ok Tedi copper mine damage claim settled
Broken Hill Proprietary, the Australian resources group, has reached an out-of-court settlement with the Papua New Guinean villagers who were suing it over environmental damage to the area surrounding the large Ok Tedi copper mine.
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Chief price changes yesterday

FRANKFURT (DM)			PARIS (FFr)		
[illegible]	600	+ 10	Carrefour	2845	+ 73
[illegible]	1058	+ 13	Suez	236.7	+ 7.2
[illegible]	335	+ 20	[illegible]		
[illegible]	233	+ 4.5	BIC	633	- 9
[illegible]	575	- 35	Eco	1321	- 57
[illegible]	672	- 11	Taittinger	1737	- 25
NEW YORK ($)			TOKYO (Yen)		
[illegible]	21	+ 2	[illegible]	868	+ 34
[illegible]	24¼	+ 4¼	[illegible]	760	+ 25
[illegible]	21	+ 5	[illegible]	578	+ 35
[illegible]	36⅝	- 3¼	[illegible]	900	+ 59
[illegible]	26	- 2½	[illegible]	465	+ 27
[illegible]	10⅝	- 3⅜	[illegible]	825	- 41
LONDON (Pence)			HONG KONG (HK$)		
[illegible]	448	+ 48	[illegible]	2.225	+ 0.12
[illegible]	620	+ 72	[illegible]	0.55	+ 0.08
[illegible]	248	+ 24	[illegible]	2.825	+ 0.27
[illegible]	142	- 13	Citic Pacific	30.7	- 0.9
[illegible]	1213	- 67	HK Telecom	13.6	- 0.45
[illegible]	579	- 46	[illegible]	18.0	- 0.75
TORONTO ($C)			BANGKOK (Baht)		
[illegible]	5.6	+ 0.7	[illegible]	34.0	+ 3.0
[illegible]	7.2	+ 0.65	[illegible]	63.5	+ 5.5
[illegible]	25.35	+ 1.35	[illegible]	153.0	+ 13.0
[illegible]	16.8	- 0.95	[illegible]	378.0	- 18.0
[illegible]	2.95	- 1.25	[illegible]	188.0	- 10.5
[illegible]	14.5	- 1.2	Thai Military	88.5	- 3.0
[illegible]	2580	+ 58			

New York and Toronto prices at 12.30pm.

Canadian mining stocks tumble

By Bernard Simon in Toronto

A series of exploration setbacks sent the booming market in Canadian junior mining stocks into sharp decline yesterday.

Share falls on the Toronto, Vancouver and Alberta exchanges reinforced a trend that began last month. The VSE's composite index, dominated by junior mining and energy shares, has fallen 10.3 per cent from its May 31 peak.

Yesterday's sell-off was triggered in part by an announcement late on Monday by Alberta-based Timbuktu Gold that an independent review of drilling results from a property in Mali pointed to "deliberate sample enrichment". It noted laboratory samples broadly matched previously reported assay results, but that archive samples contained "no significant gold values".

Separately, shares in three other exploration companies, Cumberland Resources, Comaplex Minerals and Manson Creek Resources, plummeted yesterday after disappointing drill results from the Parker Lake property in Canada's Northwest Territories.

Cumberland lost almost half its value on the Toronto stock exchange, the shares sliding from C$6.15 to C$3.15 in the early afternoon.

Junior North American mining stocks have long had a reputation as volatile, speculative investments, often aggressively promoted by brokerage firms and colourful individuals.

The boom earlier this year was sparked by a surge in shares of companies involved in the discovery of a vast nickel, copper and cobalt deposit at Voisey's Bay, Labrador, and the Busang gold property in Indonesia.

Calgary-based Bre-X Resources, which owns a controlling stake of the Busang deposit, has soared in the past year from 42 cents to a peak of C$28.65 (after a 10-for-1 share split). The shares lost $1 yesterday morning to C$23.

The run-up in prices was initially driven by institutions. But small retail investors in North America and Europe joined the bandwagon in recent months before the latest setbacks.

Timbuktu sold 4m shares, mostly in the UK, this year at C$1.30 each. The price soared as high as C$30 before trading was halted in April after reports that Mr Oliver Reese, chairman, had failed to disclose a record of securities law infractions. Timbuktu's shares will remain halted until further notice

Portugal Telecom sets record

Oversubscribed global offer set to raise $950m for new government

By Peter Wise in Lisbon

The Portuguese government's sale of 22 per cent of Portugal Telecom was the country's most successful privatisation to date breaking all records for demand, it emerged yesterday.

Demand from international institutions was four times larger than the 26.35m shares on offer, which were priced at Es3,620 each, a discount of 1.7 per cent on the market price of Es3,683 at the close last Friday.

More than 81,000 Portuguese small investors applied for shares in e retail offering at the same price, exceeding the 11m shares originally offered by seven times. About 1.65m more shares were transferred from the institutional offer.

Portugal is to raise almost Es150bn ($950m) from the offer.

"This offering has broken all Portugal's records for institutional demand and orders from individual shareholders," said a member of the global co-ordinating team, comprising Merrill Lynch, SBC Warburg, Union Bank of Switzerland and Banco Essi, a Portuguese investment bank.

The secondary global offering was the first privatisation by Portugal's minority socialist government which announced an ambitious privatisation programme when it took office seven months ago.

"Ws are very pleased at the strong reception," said Mr António Sousa Franco, finance minister.

The sale reduced the state's holding in PT to 51 per cent after the sale of 27 per cent in an initial public offer e year ago.

Portugal Telecom said it would shortly look for a strategic partner, which is expected to acquire 20-25 per cent of the group by the end of the year. Deutsche Telekom and Stet of Italy, are among telecommunication companies that have expressed an interest.

The shares closed at Es3,716 yesterday, up 2.6 per cent on the offer price and almost 1 per cent on the previous close. American Depository Receipts (ADRs) listed in New York were offered et $22.87, compared with $23.25 at Monday's close.

"The strong demand for the offer should be enough to support the shares at their present level," said Ms Karen Bradley, a London-based analyst with ING Barings. Because of the heavy demand, the global co-ordinators are almost certain to exercise an option to sell an additional 3.95m shares to cover over-allotments to institutional investors.

This will bring the total revenue for the operation to almost Es150bn. Tha amount already raised without this "green shoe" is estimated at Es135bn, allowing for discounts offered to several categories of small investors.

There is substantial demand for telecoms stocks, especially from the US. It is thought that last year's privatisations of Telefónica of Spain, and KPN, the Dntch operator, struggled because of a lack of interest from US investors who were at that time more concerned with developments at home.

Elsewhere in Europe, Deutsche Telekom, France Télécom and Stet of Italy are preparing for privatisation.

Mobile handset side will 'pick up significantly' in second half

Nokia expects 'positive' year after first-term setback

By Hugh Carnegy in Helsinki

Nokia, the Finnish mobile telecoms specialist, is recovering quickly from the problems that caused a slump in profits in the first quarter and expects 1996 "to work out in a positive way", Mr Jorma Ollila, chief executive, said yesterday.

He cautioned thet Nokia – the world's second biggest producer of mobile handsets after Motorola of the US – could not expect to return to the profit margins of more than 13 per cent it enjoyed around this time last year. "That is not sustainable in an openly competitive market like the telecom equipment market of today," Mr Ollila said.

But he stressed that the first quarter profit margin of 6.5 per cent was in line with key competitors, and added: "We are not happy with [the first quarter] level. Our goal is to do better – and we will do better."

Mr Ollila said group sales growth this year was set to exceed 30 per cent, adding that the mobile handset division, Nokia's main growth engine of recent years which slipped to a loss in the first quarter, would "pick up significantly" in the second half of the year.

"We are moving very quickly to a situation where not only will we solve the mobile telephone problems in the first six months, but we will also see the impact of new products in the top and bottom line," said Mr Ollila.

Pre-tax profits at Nokia collapsed in the first quarter from FM1.35bn ($287m) in the same period last year to FM399m and the company has warned that first-half results will also be significantly below last year's level.

Slower-than-expected sales in the US, the world's biggest mobile market, tumbling handset prices and internal logistical problems in Nokia's production process hit the mobile handset division.

Sales in the division grew 10 per cent in the first quarter – far below the levels enjoyed over the past three years – in part due to problems in the US where the switch to a new generation of digital mobile networks has been slower than expected. This was one reason why Nokia found itself with production overcapacity and stocks which it had to sell off.

However, Mr Ollila said the production "hiccups" were being overcome and a combination of premium-priced new product launches and stronger market growth in the second half of the year would lift performance.

Nokia expects global growth in mobile telephone subscriptions to reach 50 per cent this year.


Jorma Ollila: production "hiccups" were being overcome

Thorn EMI details its demerger

By Alice Rawsthorn in London

Thorn EMI yesterday unveiled details of the forthcoming demerger of its music and rental interests while reporting end-of-year results well ahead of expectations. Pre-tax profits rose 27 per cent to £539.1m ($825m) from £423.6m.

The group, which sew its shares rise 5p to £18.43 on the announcement, will issue formal demerger proposals to investors on July 22.

This will involve floating off the Thorn rentals businesses. from the EMI music companies by giving one Thorn share for each Thorn EMI share.

Analysts, who say e North American entertainment group such as Viacom or Seagram may bid for EMI after demerger, expect the independent EMI to trade et around £13.50 a share, valuing it at roughly £5.9bn, with Thorn priced at 500p and valued at £2bn.

Sir Colin Southgate, chairman of Thorn EMI, said both businesses would be "better focused" and their management "more motivated" as separate companies. He will remain chairman of EMI after the demerger, but will cede that post at Thorn after a year. He described the trading prospects for both companies as "very promising".

The group sew turnover increase 12 per cent to £5.06bn in the year to March 31, from £4.51bn, while operating profits (before operating exceptional items) rose 26 per cent to £575m.

Earnings per share were 22 per cent higher at 75.6p from 61.9p. The board proposed a final dividend of 29.5p bringing the total to 40p, up from 36.5p. Thorn EMI attributed 27p of the total dividend to EMI, and 13p to Thorn.

Sir Colin said the EMI record labels had an excellent year with 30 albums achieving sales of more than 1m units, including titles by the Beatles and Smashing Pumpkins. He added that this year had begun well with Older, the new George Michael album selling 2.5m copies in three weeks, and another Beatles release is due in the autumn. The HMV record chain has continued its expansion in North America and Asia.

EMI and HMV, which will form the EMI Group after demerger, saw profits rise 24 per cent to £384.5m, on sales up 29 per cent at £3.48bn. Thorn's profits rose 23 per cent to £187.2m, while sales were 9.5 per cent higher at £1.54bn.

Barry Riley

Unmatched cycles give an uneven ride

This year so far has provided some wonderful raw material for market cycle analysts, with the US markets running scared of a strong economic upturn while continental Europe has slipped into near-recession and Japan is staging a measurable but so far unconvincing recovery.

The big losers in all this have been holders of US Treasury bonds which have decisively decoupled from European bonds. Last Friday's non-farm payroll figures have led to a further lurch in this direction, taking the Treasury long bond yield up to 7.1 per cent, with even the 10-year yield just about hitting 7 per cent on Monday, although a good Producer Price Index figure encouraged a bond market rally yesterday.

Spreads against continental bonds have flipped. Remember that in the latter part of last year 10-year Treasuries were returning about 50 basis points less than German bunds, but this has been reversed to a yield premium of more than 40 basis points. In four months, Treasury bonds have given up about 60 per cent of the surprising gains they achieved in 1995.

This reversal underlines the somewhat artificial nature of the 1995 bond bull market. The unwinding by the speculators leveraged with cheap and depreciating yen, and the lessening role of east Asian central banks since February in recycling the dollar proceeds of sales of yen into Treasury instruments, have released dollar bond yields to rise to a more natural level.

The growing yield premium on US Treasuries now contrasts with the shift in economic fundamentals. The US fiscal position is looking quite healthy, with the budget deficit falling to trivial levels and the ratio of public sector debt to gross domestic product beginning to fall.

In contrast, the financial performance of many European countries has become dire, with the average budget deficit at about 5 per cent of GDP and the accumulated debt burden of Germany, for instance, set to overtake the US's. Meanwhils, the French government has been leaning on the OECD to tone down its deficit forecasts, and this week has been blustering in its denials of the significance of a FFr32bn ($6.2bn) social security spending overshoot for 1996.

> The big losers in all this have been holders of US Treasury bonds

In the short run, cyclical factors mask these more secular trends. But in the run-up to the Maastricht deadline of 1999, the old assumptions about hard and soft currencies and appropriate yield relationships will have to be rethought.

Meanwhila Treasury bond yields are now putting severe pressure on the valuation basis of US equities. Is this 1987 all over again? Inevitably there is an eye-catching parallel with the early part of that year, when the 10-year Treasury yield jumped 180 basis points between March and May but the stock market took absolutely no notice.

This year, the bond yield rise has been 140 basis points between February and June. But it was a second jump in bond yields in 1987, of roughly 150 basis points between August and October, that finally triggered the crash in equities. It would take some very strong economic numbers through the summer to force yields up much further. But bond market analysts are bracing themselves for 4 per cent GDP growth in the second quarter.

Another warning signal can be found in the UK, where for several weeks the dividend yield on the All-Share Index has been hovering just below the real yield of about 3.9 per cent on index-linked gilts, instead of the more typical 50 basis points above.

Again, this anomaly is nowhere near as pronounced as in 1987, but it reflects the same dilemma: that the rapid growth expectations in the equity market will trigger a bond market crisis if they are fulfilled, and yet if the growth does not arrive equities are overpriced.

At present the general assumption is that continental Europe will join in the general recovery later this year, but what is actually happening is that the more buoyant European economies of Italy and the UK are slowing down. Any attempts to tighten fiscal policies to meet Maastricht conditions will force offsetting looseness in monetary policies.

We should not be too quick to assume that the ill-matched cycles of 1996 will slot neatly into synchronisation.

COMPANIES AND FINANCE: ASIA-PACIFIC/INT'L

Hongkong Telecom stock hurt by stake sale unease

By Louise Lucas in Hong Kong

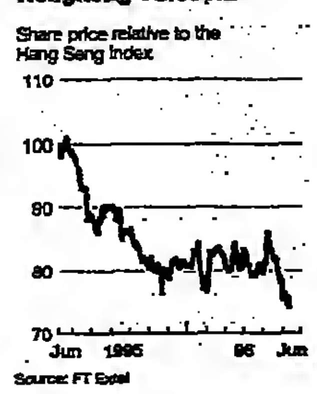
Shares in Hongkong Telecom slid yesterday after Monday's sale by Citic Pacific, the Hong Kong-listed arm of Beijing's main domestic and international investment vehicle, of part of its stake in the telecoms group.

The sale by Citic, carried out in Singapore, is considered important because it brings Citic's holding down from 10 per cent to 8 per cent and removes automatic board representation. Citic, which attributed the sale to a refocusing of its interests, did not rule out a further reduction of its stake.

The buyer of the HK$3bn (US$387.6m) stake has not been identified. Names of possible buyers circulating in the market yesterday included Mr Li Ka-shing, a leading businessman with a close relationship to Beijing and an involvement in telecoms, through his conglomerate Hutchison Whampoa, and Pacific Century in Singapore.

Others include the Singaporean government investment corporation and a branch of China's ministry of post and

Hongkong Telecom



Source: FT Extel

telecommunications – although it is unlikely either of these would feel the need to conduct the deal in secret.

Brokers, however, said the gloomiest prognosis was not for Hongkong Telecom, but Cable and Wireless, the UK telecoms group which holds 58 per cent of Hongkong Telecom. Mr Adam Quinton, telecoms analyst with Merrill Lynch in Singapore, said: "With the main China partner walking away, the pressure on Cable and Wireless to secure its future is clearly much greater than it was two days ago."

Hongkong Telecom's perceived vulnerability was highlighted by a recent ownership shake-up in the aviation sector. That deal, approved on Monday, between the commercial arm of China's aviation regulator, Citic Pacific and Cathay Pacific, the colony's de facto flag carrier, in effect handed China a slice of Hong Kong's aviation market.

Many analysts believe the heavily UK-controlled Hongkong Telecom will have to undergo a similar reshuffle to prepare it better for Hong Kong under Chinese rule next year.

Brokers say China's involvement in a strategic industry sector like telecoms will be a priority for Beijing. "Hongkong Telecom is just like Cathay Pacific, but the bucks are bigger," said one dealer.

Hongkong Telecom shares closed yesterday at HK$13.80, down 3.1 per cent from the previous day's close of HK$14.25. Citic Pacific shed 2.8 per cent, down from HK$31.60 to HK$30.70. The benchmark Hang Seng index fell 1.4 per cent.

Teva set to restructure debt

By Julian Ozanne in Jerusalem

Teva Pharmaceutical Industries, Israel's largest drug manufacturer, yesterday signed a syndicated loan worth US$70m to restructure its debt profile and increase its exposure to Europe, a growing area of exports for the company.

Mr Dan Suesskind, Teva chief financial officer, signed the loan in Zurich yesterday. Union Bank of Switzerland, the Swiss-based global investment house, arranged the facility with a consortium of 11 European Banks including Deutsche Bank and Dresdner Bank, the two largest banks in Germany; Kredietbank of Belgium; and Banca Monte dei Paschi di Sienna of Italy.

UBS said the loan had a maturity of five years and would pay an interest margin of 44 basis points above Libor. It said the facility had been well received in syndication, closing oversubscribed.

Teva, traded in New York and Tel Aviv, is Israel's leading pharmaceutical company, with sales last year of $668m. Net income in 1995 was $80m, or $1.46 a share.

Mr Suesskind said the main purpose of the loan, which improved the terms of a previous loan arranged by UBS, would be to restructure Teva's debt to increase the long-term element in the balance sheet. He said Teva, which traditionally has done the most of its business in North America and Israel, wanted to increase its exposure to European banks and European markets.

Teva last year bought Biogal Pharmaceutical Works of Hungary, a drug and chemical producer, and a chemical plant in Italy. It last month completed a merger with Biocraft Laboratories, a US-based generic drug manufacturer.

The company hopes to expand in Europe, which accounted for just 12 per cent of sales in 1995.

Mr Suesskind said Teva was confident that Copaxone, its first innovative drug for the treatment of multiple sclerosis, would receive US Food and Drug Administration approval by the end of this month. Analysts say sales of Copaxone could add $100m of revenues in the first year.

Syndicated loans, Page 20

NEWS DIGEST

Housing industry downturn hits Email

Email, the Australian appliance, building and industrial products group, has blamed a downturn in the housing industry for a 40 per cent fall in profits before tax and abnormal items in the year to end-March. The group made A$68.7m (US$54.5m), down from A$116m the previous year, on sales flat at A$2.14bn. Earnings per share tumbled from 37.4 cents to 19.5 cents.

Email, which accounts for more than 40 per cent of the white goods market in Australia, said profits had been hit by a sharper-than-expected decline in new housing starts, price competition, and cool summer temperatures which weakened demand for refrigeration and air conditioning products. Its appliance division saw pre-tax profits slide from A$26.3m to A$12.3m, while building products fell from A$33.5m to A$19.3m. Metals, boosted by a five-month contribution from Atlas Steels, made A$52.7m, against A$45.5m, while the industrial products division was virtually static at A$26m.

The group shed a number of non-core businesses during the year, and cut about 1,000 jobs, or some 10 per cent of the workforce. Email said it expected further job cuts this year, although on a smaller scale. Cost-savings already made should help performance even if markets stay flat. *Nikki Tait, Sydney*

Go-ahead for Australis rescue

Shareholders in Australis, the Australian satellite pay-TV operator, yesterday approved a A$200m "rescue" financing package, which involves Mr Kerry Packer's Publishing & Broadcasting group becoming associated with the company for the first time. Mr Packer, who owns Australia's leading television network, is one of four investors who have provided guarantees to underpin a bank credit facility for Australis. PBL's involvement, revealed two months ago, came as a surprise since it had been assumed Australis – which has seen heavy losses – was more likely to do a deal with News Corporation, run by Mr Rupert Murdoch, Mr Packer's arch-rival. *Nikki Tait*

BankWest 'on course'

BankWest, the Perth-based regional bank controlled by Bank of Scotland, said yesterday it was still aiming to achieve profit forecasts made for the year to end-February 1997 despite the outbreak of a "home loan" war. BankWest had predicted in January it would make a profit after tax of A$100.2m (US$79.47m) in this period. The forecast was made in conjunction with the flotation of 49 per cent of the group's equity on the Australian Stock Exchange, leaving Bank of Scotland holding the rest. *Nikki Tait*

Toshiba to trim chip output

Toshiba has joined other Japanese chipmakers in cutting plans for production of mainstream 16-megabit D-Ram computer chips, amid a weak market and tough price competition. The electronics company will trim production plans for the chips by 20 per cent from its forecast for this financial year. "We expect market demand to come back but price competition will continue," it said.

The company now plans monthly output of 8m 16-megabit D-Ram chips by the end of next March, against a forecast 10m. Toshiba produces about 6.5m of the memory chips a month. *Reuter, Tokyo*

Manila cautious on Hopewell power play

Hopewell Holding's decision to spin off its Philippine power plants into a separate infrastructure subsidiary to be listed on the Philippine stock exchange has been greeted with caution in Manila.

Analysts, who point out it would be the first "pure power play" to be listed on the local exchange, say it is too early to assess the IPO without pricing or free-float details. Mr Gordon Wu, chairman of Hopewell, said on Monday the listing would take place by early 1997 at the latest.

The spin-off is part of Mr Wu's master plan for his roads, transport and power plant empire and, more important, for the financing of that empire. This strategy was revealed in November 1993, when Hong Kong-listed Hopewell Holdings – then a hybrid property, hotels and infrastructure company – hived off Consolidated Electric Power Asia (Cepa) in a separate HK$5.9bn (US$762.3m) listing, one of the biggest capital-raising exercises in the colony's market.

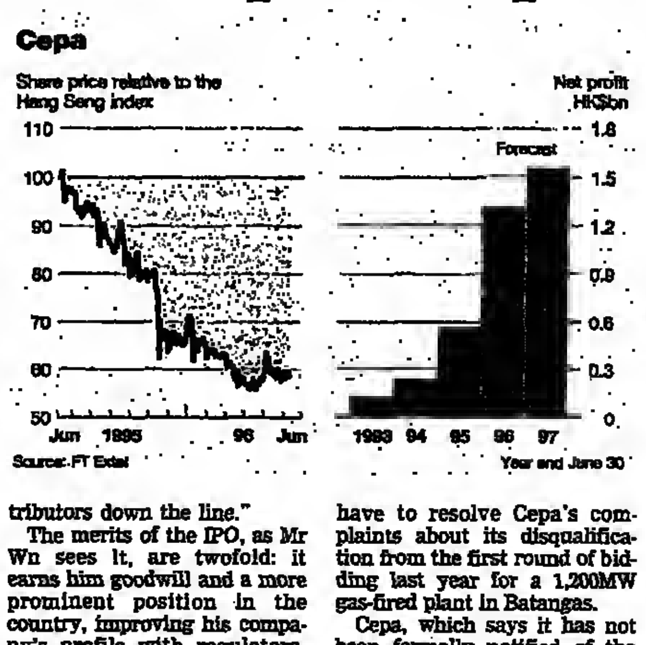
Cepa is to be followed by this year's proposed listing of Hopewell (Thailand), which is aiming to raise some Bt15bn ($591.5m), or HK$4.5bn. This company, valued by the IPO at an aggressive Bt50bn, will hold 70 per cent of the Bangkok Elevated Road Rail System project. A similar roads and transport package is to be spun off from Hopewell in Hong Kong; again, the new vehicle has been valued at a price considered overly aggressive by the investment community.

Telegraphing his intent to bring Cepa Philippines to the market within 10 months is the next step – though most Hong Kong-based analysts doubt it will come any earlier than 1997. Thereafter, Mr Wu intends spawning an entire family of country-focused Cepas spreading as far as Pakistan and Indonesia, where Cepa has power stations.

Mr Wu has not indicated the make-up of the Philippines Cepa subsidiary, and it is unclear if it will include Hopewell's non-power Philippine infrastructure projects, notably the planned 10.9bn peso (US$416.3m) toll-road linking Manila to Pagbilao – site of one of Cepa's coal-fired plants – 120km south of Manila. The project, signed yesterday by the Philippine government and Hopewell, will be completed by 1998.

"Cepa's timing looks very good," says Mr Chris Hunt, chief researcher at W. I. Carr in Manila. "The Philippine power sector is about to be deregulated so there will be a lot of scope for improving purchasing arrangements with independent electricity distributors down the line."

Cepa



Source: FT Extel

The merits of the IPO, as Mr Wu sees it, are twofold: it earns him goodwill and a more prominent position in the country, improving his company's profile with regulators, and it enables him to raise cash where it is being spent.

But the strategy has its flaws. Mr Wu's credibility with fund managers and investors in Hong Kong is evaporating: investors are losing patience with Hopewell's high gearing and the problems which have beset many of its big projects.

In the Philippines, Mr Wu has identified two obstacles to be cleared before Hopewell goes ahead with the flotation. First, the government will have to resolve Cepa's complaints about its disqualification from the first round of bidding last year for a 1,200MW gas-fired plant in Batangas.

Cepa, which says it has not been formally notified of the planned rebidding this year, was disqualified because it included Westinghouse-licensed 501F gas turbines in its US$3bn tender. The technology was banned in the Philippines because of a legal dispute between the US group and the government. The ban has since been lifted in a US$100m out-of-court settlement.

To rub salt into the wound, part of the settlement included the donation to the Philippines of two 501F turbines – which the government has subsequently asked second-round bidders to incorporate in their tenders. Mr Wu, who said the affair left "a bad taste in the mouth", expressed confidence the issue would be resolved. The government says Cepa would be eligible to participate in the second round this year.

The second dispute concerns the bonus payment for Cepa's early completion of the 700MW coal-fired plant in Pagbilao, which was formally opened on Monday. The National Power Corporation has not completed the transmission lines to the US$933m plant, so it will not be fully operational until next March. Mr Wu is seeking an extension of the 25-year build-operate-transfer contract on the plant, to 27 or 30 years, as compensation.

In spite of the controversy, Hopewell – and Mr Wu in particular – can bank on political goodwill in the Philippines. The company was instrumental in solving the Philippines' chronic power shortages in 1993. The end of that "brownout" was one of the first achievements of the administration of President Fidel Ramos, and it was Mr Ramos who formally opened the Pagbilao plant on Monday.

Edward Luce and Louise Lucas

LEGAL NOTICES

In the High Court of Justice No 001951 of 1996
Chancery Division
Companies Court

IN THE MATTER OF
SECURITY SERVICES PLC
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 5th June, 1996 confirming the reduction of the capital of the above-named Company from £30,000,000 to £16,403,331 and the Minute approved by the Court showing with respect to the capital of the said Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 7th June, 1996.

Dated this 12th day of June, 1996
Slaughter & May (MNM),
35 Basinghall Street
London EC2V 5DB
Solicitors for the above-named Company

In the High Court of Justice No 001952 of 1996
Chancery Division
Companies Court

IN THE MATTER OF
SECURICOR GROUP PLC
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 5th June, 1996 confirming the reduction of the capital of the above-named Company from £22,750,000 to £1,043,663.75 and the Minute approved by the Court showing with respect to the capital of the said Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 7th June, 1996.

Dated this 12th day of June, 1996
Herbert Smith
Exchange House, Primrose Street,
London EC2A 2HS
Solicitors for the above-named Company

UAP divests FFr3.2bn property loan portfolio

By Andrew Jack in Paris

Union des Assurances de Paris, France's largest insurance group, said yesterday it had sold a portfolio of property loans with a gross value of FFr3.2bn ($615m), in one of the most important deals carried out in the country's depressed market.

The transaction, believed to be for just under FFr1bn, was completed with Whitehall, a group of investment funds managed by Goldman Sachs, the US-based investment bank.

The deal represents 40 per cent of outstanding loans to property developers made by UAP's Banque Worms subsidiary, and is part of a wide-ranging restructuring of the insurance group to clear out its non-performing property activities.

Mr Dominique Bazy, UAP's deputy managing director, hailed the operation "a success" yesterday and said "with this deal we have arrived at the end" of the overhang of the group's property problems.

At the end of 1993, UAP had gross property loans of FFr15.2bn. After yesterday's deal, the portfolio has been reduced to FFr4.8bn gross and FFr2.6bn net, of which FFr1.4bn is classified as doubtful and FFr1.2bn as performing loans.

Mr Bazy said the property loans sold were largely made against existing, high-quality buildings, principally consisting of housing in the Paris region. The repayment on some 90 per cent had been classified by the insurer as doubtful, and it had already taken provisions for 60 per cent of their value.

The group said the sale would trigger a FFr300m capital loss in its 1996 accounts, which would be offset by capital gains on the sale of other property assets.

The latest development comes after the insurer reported losses for 1995 of FFr2bn after making new provisions of FFr4.5bn against property and other investments triggered by an audit carried out last autumn. It also announced changes including a significant reorganisation of Banque Worms.

Whitehall has shown considerable interest in the French property market. The group has already recently acquired Alliance Hôtellerie, France's seventh-largest hotels group, as well as property assets from Suez, the financial and industrial holding company.

Yesterday's sale was also an important step for Bankers Trust, the US investment bank which advised UAP.

It represents the third important sale of property in the French market co-ordinated by the bank this year. The other two were the sale of a FFr900m portfolio of loans made by Barclays, and FFr745m by Compagnie de Suez.

Ruhrgas slips slightly on price competition

By Judy Dempsey in Essen

Ruhrgas, Germany's largest supplier and distributor of gas, yesterday attacked plans by the federal economics ministry to liberalise the energy sector by abolishing exclusive sales between suppliers and customers.

However, at the same time Ruhrgas said it would take advantage of the government's plans to liberalise the telecommunications sector. It was already holding talks with several parties, including Viag, the industrial conglomerate, and RWE, the utility group, both now active in telecommunications.

Mr Klaus Liesen, chairman of Ruhrgas, said plans by Mr Günter Rexrodt, the economics minister, to prise open Germany's regulated energy sector would undermine long-term investment projects and jeopardise long-term supply contracts.

He made his remarks after announcing a fall in consolidated sales and profits for 1995. This was in spite of a slight rise in profits at Ruhrgas AG, its gas division. The dividend will be reduced by DM2.32 to DM10.46.

Consolidated group sales fell DM136m, from DM13.79bn in 1994 to DM13.65bn ($8.89bn) last year while net profits declined DM6m, from DM698.8m to DM692.8m over the same period.

Sales at Ruhrgas AG, which contributes more than 80 per cent of the group's turnover, fell DM250m despite record output last year of 530bn kilowatt hours. Profits rose from DM609m to DM610m.

Group capital expenditure DM1bn, DM300m less was than 1994. Acquisitions included a purchase of a 12.5 per cent stake in the city of Bremen's public utility company, a 11.5 per cent stake in Fögaz, the Budapest gas works and a 15 per cent stake in Eesti Gaas, Tallinn.

The decline in sales and profits was largely blamed on lower prices, which fell more than 8 per cent last year, according to Mr Friedrich Janssen, responsible for finance and board member of Ruhrgas AG. The cuts were a response to the emergence of Wintershall, the gas subsidiary of BASF, Germany's chemicals group, which is becoming a significant operator in the gas sector although it has only 9 per of the market.

Wintershall is a staunch defender of Mr Rexrodt's proposals, which will be presented to the cabinet early next month despite growing opposition from the gas and electricity sector. Companies in the sector are objecting on the grounds that the draft contains no transitional arrangements for existing contracts.

Ruhrgas, which until recently enjoyed a monopoly over the supply and distribution of gas in Germany, denied that the current system of demarcation and concession contracts – which grants exclusive rights to suppliers – was uncompetitive.

"Competition is not at all called into question by such exclusive sales rights," Mr Liesen said, "because the legal relationship applies only between the gas seller and buyer. Other suppliers are neither tied nor impeded by it."

Mediaset float set to end Fininvest majority

By Andrew Hill in Milan

Mr Silvio Berlusconi, the Italian media magnate and former prime minister, should eventually reduce his stake in Mediaset to 47.9 per cent after next month's flotation of the television and publicity company, but only after minority shareholders exercise warrants to buy more shares.

According to the prospectus published yesterday, the flotation will immediately raise up to L1,000bn ($645m) for Mr Berlusconi and reduce the stake held by Fininvest, the Berlusconi family company which is Mediaset's main shareholder, from 71 per cent to slightly more than 50 per cent.

The holding will come down to below 50 per cent if minority shareholders – including Italian banks and British Telecommunications – exercise warrants to buy more shares in Mediaset over the next two years. Executives close to the transaction said yesterday that the shares linked to the warrants were already set aside, which meant Fininvest would hold less than 50 per cent of the voting rights immediately after the offer closed.

Bankers said there was already strong demand for Mediaset shares from potential investors even though the public offer does not open until July 2. The roadshow begins next Monday.

Fininvest's current holding in Mediaset includes 14.7m shares which Mr Berlusconi had to buy back from Kirch, the German media group, at the end of last month. Kirch aimed to sell those shares on to Veba, the German industrial conglomerate, as part of a deal to exploit the telecoms potential of Mediaset's television network. However, Kirch sold the shares back to Fininvest after Mediaset chose instead to link up with Albacom, the joint venture between British Telecommunications and Banca Nazionale del Lavoro.

As part of the Albacom deal, BT and BNL have the right to buy up to 8.24m extra shares from Fininvest before July 1, 1997, at a price 5 per cent higher than the eventual flotation price. Italian banks also have warrants to buy shares before mid-1998.

The prospectus confirms that the offer will be priced between L6,000 and L7,200 a share, valuing the company at between L7,000bn and L8,300bn. It also stresses that Fininvest will provide an "unlimited" guarantee against any damages suffered by Mediaset in connection with the judicial inquiries into the holding company, which have cast a shadow over the flotation.

Fininvest is bound by covenants aimed at ensuring the holding company always has the means to cover any potential liabilities.

The prospectus also indicates that Mediaset will have a favourable option on Fininvest's 25 per cent stake in Telecinco, the Spanish television company and its related interests in publicity and television rights.

Observer, Page 11

Silvio Berlusconi: will raise up to L1,000bn from the flotation Reuter

Egyptian banks to go ahead with offerings

By James Whittington in Cairo

Two of Egypt's leading commercial banks confirmed this week they were proceeding with equity offerings that will increase the number of domestic and foreign shareholders and dilute the proportion of their shares owned by state-controlled bank partners.

The Commercial International Bank said that its largest single shareholder, the state's National Bank of Egypt, was reducing its 42.6 per cent stake to 20 per cent through an issue of Global Depositary Receipts, which will be listed on the London Stock Exchange.

This will cost up to $1m less than an issue of American Depositary Receipts in New York, and will also enable CIB to sell the securities to qualified US institutional investors under the Securities and Exchange Commission's Rule 144a. It will be Egypt's first international offering.

CIB is Egypt's second largest listed company, and its shares the most actively traded on the Cairo Stock Exchange. It has a market capitalisation of E£1.97bn ($576m) and more than 12,000 institutional and retail shareholders. The GDR offering is expected to raise between $80m-$100m.

Before the CIB offer, foreign and domestic investors will have the chance to buy shares in an initial public offering by the Egyptian American Bank through the local stock market in the last week of June. The bank is offering 2m ordinary shares through a capital increase at E$60 a share which will raise E£120m. The offering will dilute the state-owned Bank of Alexandria's stake from 51 per cent to 42.5 per cent.

Both banks have benefited from Egypt's economic reforms since the beginning of the 1990s, which have focused on financial liberalisation and monetary stability. They compete for a similar client base of blue-chip service and industrial corporations in Egypt.

Since its primary share offering in Cairo in 1993, CIB has seen its earnings increase substantially. A 50 per cent jump in net profits in 1994 confirmed it as the most profitable bank in Egypt. Its shares have risen from an issue price of E£260 to a high of E£611 in March 1995.

Earlier this year, however, the bank disappointed local investors with only a 6 per cent rise in net profits from E£205.8m to E£218m, after a doubling of provisions and increased margin pressure. This contributed to a sharp fall in its share price, which stood at E£438 yesterday – a historic multiple of 8.2.

EAB, meanwhile, recorded a 3 per cent increase in net profits from E£79.6m in 1994 to E£82.7m last year.

Fertilisers promote growth at Kemira

By Greg McIvor in Stockholm

A strong performance in fertilisers helped Kemira, the Finnish chemicals group, offset weaker sales in its pigments division and lift pre-tax profits to FM477m ($101.27m) in the first four months of 1996, up 62 per cent from FM294m in the same period last year.

The profits exceeded market expectations by around FM100m, and the group's shares rose FM2.2 to FM48. Turnover was FM4.5bn, against FM4.4bn, and earnings per share rose from FM1.9 to FM2.8.

Operating profits at Kemira's Agro fertiliser unit, which contributes half of group turnover, were bolstered by a 10 per cent rise in plant nutrient prices in the UK and western Europe, rising from FM327m to FM422m. Sales advanced from FM2.1bn to FM2.3bn.

Mr Heimo Karinen, chief executive, attributed the improvement to a global grain shortage and lower EU set-aside stipulations.

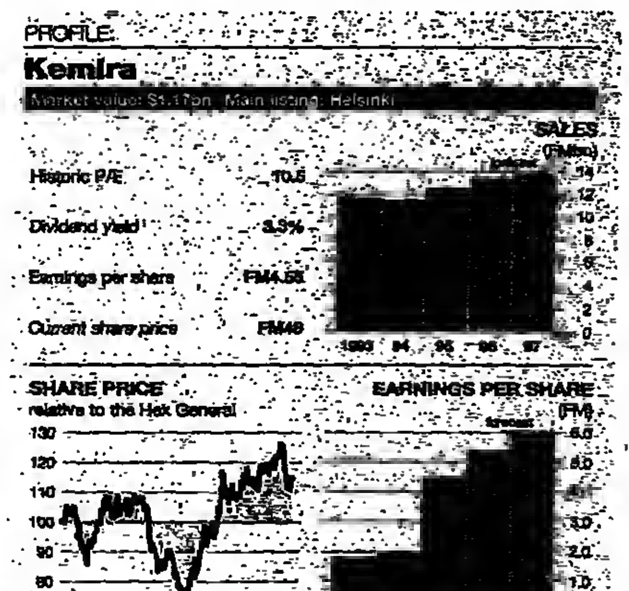
He said the pigments division, where operating profits slid from FM92m to FM22m on sales down from Fm781m to FM661m, had suffered from the general economic slowdown in Europe, but particularly in the paper industry, where its products are used in laminated papers.

"Prices have eroded under pressure. The future development remains uncertain, but as customer inventories [in the paper industry] have been mostly depleted, the situation is expected to stabilise," Mr Karinen said.

However, he stressed profitability would be "clearly lower" than last year. The warning hit the shares of the UK's ICI, which has a big paints division. They fell 10½p to 838p.

Performance in Kemira's chemicals division was restrained by depressed demand for pulp and paper chemicals. Operating profits rose from FM140m to FM150m on sales ahead from FM830m to FM883m.

Kemira, which was partially privatised in 1994, has cut costs by around FM700m a year since 1991 as part of a heavy rationalisation to improve competitiveness.



Kirch to launch digital pay-TV next month

By Judy Dempsey

Kirch, Germany's powerful film and entertainments group, is poised to launch the country's first digital pay-TV service next month, ahead of Bertelsmann, its arch-rival.

Tha launch, announced yesterday and scheduled to take place on July 28, ends months of speculation and intense rivalry between Germany's two biggest media and entertainment groups.

Bertelsmann is considering the launch of a competing digital pay-TV network in a consortium including Deutsche Telekom; Canal Plus, the French commercial television network; and ARD and ZDF, Germany's two state channels.

Bertelsmann last week suffered a big setback in its bid to capture a Europe-wide digital television audience after BSkyB, the television network partly owned by Mr Rupert Murdoch, pulled out of the alliance. But Mr Nikolaus Formanik, a spokesman for Ufa, Bertelsmann's television division, said the consortium would be ready to launch "later this year".

Mr Gottfried Zmeck, a senior Kirch manager, said yesterday that Das Digital Fernsehen, or DF1, the digital pay-TV channel, aimed to capture 200,000 subscribers this year and have nearly 700,000 by the end of 1997.

"The aim of DF1 is to become market leader," Mr Zmeck said. Ha said its target was 3m subscribers by the end of the decade.

Subscribers will pay a flat monthly fee of DM20 which will give them access to a package of programmes, while an extra DM10 will give them the sports channel.

The decoding box, or "d-box", a set-top device for decoding signals which has been developed by Betacom, the technical division of Kirch, will cost between DM1,100 and DM1,300 ($716-$846).

Mr Zmeck and other Kirch officials yesterday insisted that although Kirch would be one of the main content providers, the system would be open to all such providers. "There will be no conditional access," said Mr Nikolaus von der Decken, of DF1.

A high subscription level is deemed vital for the financial success of the venture. Mr Zmeck said more than DM1bn was required in investments and that DF1 was aiming to break even in the fourth business year.

In the meantime, it would be able to rely on the vast marketing strength as well as the deep pockets of Metro, Germany's big retailing group which last year had sales of over DM76bn.

Metro, together with Vebacom, the telecommunications division of Veba, the German industrial conglomerate, will offer multimedia packages to complement the TV service. They will also manage billing, collection, and subscription and the sale of d-boxes for DF1.

NEWS DIGEST

Metra profits slide in first four months

Profits fell 52.5 per cent in the first four months at Metra, the Finnish engineering group, from FM286m to FM50m after financial items. However, full-year sales are expected to reach FM12bn, with profit after financial items predicted higher than last year.

Net profits for the first four months fell from FM213m to FM18m on sales up from FM2.926bn to FM3.162bn. Earnings per share fell from FM7.93 to FM0.73. A one-off FM107m item in the corresponding period of 1995, and a shift towards the end of the year of a larger proportion of Waertsilae Diesel's income, accounted for the fall in profit, the company said. Waertsilae Diesel made an operating loss of FM64m, compared with profit of FM109m a year earlier. The division, however, had a record orderbook of FM5.8bn. The unit's cash flow was restricted in the first half of the year by large investments and expenses relating to the orders due for delivery at the year-end. *AFX News, Helsinki*

SAS Danmark plans rights issue

SAS Danmark, the Danish parent company of Scandinavian Airlines System, is to increase its share capital through a rights issue of 14,449,777 new shares of DKr10 nominal value each, the company said. The new shares are being offered at DKr39 per DKr10 share, and the company's shareholders have pre-emptive rights to subscribe for the new shares. The rights issue is intended to harmonise the shareholders' equity and share capital structure of SAS Danmark to reflect its ownership interests of two-sevenths in the SAS Group. SAS Danmark has also decided to issue 38,233 new shares at DKr10 nominal value each. These shares were issued at market price and directed at the Kingdom of Denmark and Den Danske Bank. *AFX News, Copenhagen*

Puma cash call raises DM69.5m

Puma, the German sports-shoe group, said it had raised DM69.5m ($45.2m) in fresh capital by selling 1.39m shares at DM50 each in a public offering. The company said the issue took its total equity capital from a nominal DM70m to DM76.95m. Puma shares closed at DM54.60 in floor trading on the Frankfurt stock exchange. The company said Sweden's Proventus had reduced its Puma stake from 82.4 to 25 per cent per cent by selling 7.69m shares and not taking part in the capital increase. The company said Proventus had placed the stake with a consortium of Deutsche Bank and Goldman Sachs. Deutsche Bank had placed the shares with German and international institutional investors while Goldman Sachs placed the shares with US investors, it said. *AFX News, Herzogenaurach*

Enel 'could list in October'

Mr Alfonso Limbruno, managing director of Enel, said the Italian state-owned power generator could be listed in October. "A placement [of Enel's capital] in October could be possible because, according to the market, in general the autumn is a good period," he said. However, the decision was in the hands of the government. Mr Limbruno said the legislation on the regulatory body was ready and the appointments for the body should be made soon. *AFX News, Chianciano Terme, Italy*

Dassault arm expects profit

Dassault Electronique, A subsidiary of Dassault, will announce positive results in 1996 owing to a recovery at its Dassault Automatismes et Télécommunications unit, Mr Bertrand Daugny, chairman, said. He told the annual general meeting that 1996 sales would be about FFr4.5bn ($865m), up from 1995's FFr4.25bn. The unit posted a 1995 net loss of FFr21.4m. *AFX News, Paris*

Metsä-Serla sells stake

Metsä-Serla, the Finnish forestry group, said it sold its 5.1 per cent stake in UPM-Kymmene on the stock exchange for FM1.255bn, making a capital gain of FM121m ($25.7m). The transaction involved 13.6m shares. *AFX News, Helsinki*

Greek group in Macedonia move

A. Michaelides, Greece's largest tobacco processor, is to pay DM3.6m ($2.3m) for a 60 per cent stake in Strumitsa Tabak, a Macedonian processor, in the first privatisation deal involving the former Yugoslav republic's tobacco industry. The sale, arranged by Macedonia's privatisation agency, provides for Strumitsa's employees to hold the other 40 per cent. *Kerin Hope, Athens*

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COMPANIES AND FINANCE: THE AMERICAS

EDS shares commence trading in London

By Alan Cane

Shares in Electronic Data Systems, the US based computing services group which manages many government computer systems in Europe and the US, began trading in London yesterday following their New York debut on Monday.

The company, founded by Mr Ross Perot, the former US presidential candidate, is the largest independent computing services group in the world with revenues last year of $12.4bn.

It gained shareholder approval to demerge from its parent, General Motors, on June 7. Shareholders holding GM's E-class shares will receive an equivalent number of EDS shares tax free; EDS is paying GM $500m in cash and has a 10-year contract for GM data services.

One of the company's chief tasks worldwide, senior executives said, was to reprogram computers to take account of the change of century. Without reprogramming, there would ba confusion as computers stopped or interpreted dates in the 21st century as their 20th-century equivalents.

EDS is listing in London as well as New York to underline its rapid growth in Europe, the Middle East and Africa, where it has 19,000 staff and revenues of $2.4bn.

It provides a broad range of computing services but is best known for outsourcing deals, where it takes over and operates a company's computer systems for an agreed fee. In the UK, customers include the Inland Revenue, the Civil Aviation Authority and the Driver and Vehicle Licensing Agency.

Mr John Bateman, EDS chief executive for Europe, said the split from GM would give EDS the opportunity to approach customers in the automotive and aerospace industries who might have been deterred by the group's relationship with GM and its subsidiaries.

It would also give it the flexibility to approach strategic alliances, although he ruled out the possibility of deal with British Telecommunications. Three years ago, BT and EDS called off talks which would have involved BT buying a large stake in EDS.

Mr David Thorpe, EDS managing director in the UK, said "Year 2000" teams had been established to cope with the problem of computers and the change of date at the end of the century. Tests with customers' computers before reprogramming showed they did not necessarily stop. "The systems ran but garbage came out," he said.

He said he was confident that all EDS systems would be reprogrammed by 2000. It was not too late for other companies, but the work had to be started now. If it was left to the last minute, there would he chaos.

John Bateman: split from GM will give EDS flexibility

NEWS DIGEST

MCI, Intel launch Internet software

MCI Communications and Intel have launched their jointly developed network MCI WebMaker software for the creation and maintenance of World Wide Web sites on the Internet and said they had formed an alliance to develop and market further Internet products and services.

The program allows businesses to expand marketing channels through the internet without having to learn complex computer, networking or security technologies, the companies said. They said the product would be aimed at small to mid-sized businesses that had yet to establish a presence on the Internet. *AFX News, San Francisco*

Canadian energy merger

Canadian Natural Resources, a fast-growing Western Canada energy group, plans to take over Sceptre Resources, mainly a natural gas producer, for about C$519m (US$380m) in stock and cash. The bid values Sceptre shares at C$9.07 each, a small premium over last Friday's closing price.

Two Quebec government agencies and the Quebec natural gas distributor will tender their holdings totalling one third of Sceptre's 57.2m shares outstanding. They will retain about 7.5 per cent of the merged company. *Robert Gibbens, Montreal*

Canadian Airlines seeks funds

Canadian Airlines, Canada's second-biggest scheduled carrier, plans to raise about C$300m (US$220m) of new equity to bolster its balance sheet, but in a way to minimise dilution, said Mr Kevin Benson, chief financial officer. The options include issuing convertible preferred shares or convertible debt. The company's short-term cash needs have been met by lengthening aircraft loan payments, equipment sales and leasebacks, and renegotiating bank operating lines. *Robert Gibbens*

Barclays to sell Canadian banking arm

By Bernard Simon in Toronto

Barclays Bank, of the UK, has agreed to sell its Canadian banking subsidiary to Hongkong Bank of Canada, a unit of Hongkong and Shanghai Banking Corporation. Terms were not disclosed.

Barclays has sharply scaled back its operations in Canada over the past two years, with the assets of its local subsidiary falling from more than C$3bn (US$2.2bn) to about C$800m. The assets consist mainly of mid-market commercial loans.

Barclays will retain a presence in Canada through BZW, its investment banking arm, which specialises in corporate, structured and export finance, and private banking.

Mr Graeme Hansen, president of Barclays Canada, said the sale was in line with the parent's worldwide strategy and was designed "to clear the decks so that the remaining businesses can get on with life without the distractions of the old businesses".

Foreign institutions have found it difficult to compete against the large Canadian banks, and several have suffered heavy loan losses.

Repsol group wins auction for Peruvian refinery

By Sally Bowen in Lima

A consortium headed by Repsol of Spain yesterday became the new owner-operator of Peru's largest refinery, La Pampilla, on the coast north of Lima.

The public auction marked the start of the long-delayed and controversial privatisation of Petroperu, the state-owned oil producer and refiner.

It underlined Repsol's eagerness to establish a firm presence in Latin America. In the past few days, the Spanish hydrocarbons conglomerate has acquired a 37.7 per cent controlling stake in Astra, Argentina's fifth-largest energy group, for $360m.

For its La Pampilla bid, Repsol joined forces with YPF of Argentina and Mobil of the US. Repsol has a controlling 45 per cent in the consortium – Refinadores del Peru – YPF, 25 per cent, and Mobil, 5 per cent. Two Peruvian companies each have a small stake and the remainder is taken up by the Peru Privatisation Fund, which will provide secondary debt paper in return for equity.

With an offer of $180.5m for the 60 per cent stake, the consortium outbid its only rival, Maraven of Venezuela, which offered $165.6m. Base price had been set at $108m, including $38m in secondary debt paper. The new operator is contractually obliged to invest at least $50m in modernising the 27-year-old refinery.

At the same auction, held in Lima yesterday, Pluspetrol of Argentina, in association with two minority Korean partners, was awarded a 30-year concession to the northern jungle oilfields known as Blocks 8-8x.

Reserves have been established at 43m barrels by J.R. Bntler of the US. Pluspetrol is committed to investing at least $25m in developing the deposits.

In what observers described as a shut-out bid, Pluspetrol offered $142.2m, well ahead of the $115m, $104m and $86m bid respectively by China Petroleum and Technology, Perez Companc of Argentina and YPF.

Government ministers were relieved to have got Petroperu's privatisation under way after long delays. Although the state has sold off more than $1.5bn in state assets, securing associated investment commitments of abont the same again, the proposed sale of the oil producer provoked greater hostility than any previous privatisation.

Opinion polls indicate that more than 60 per cent of Peruvians oppose Petroperu's sell-off and especially its division into separate units.

According to Peruvian officials, Petroperu will be wholly privatised by the middle of next year. The government is expecting to net $1.2bn from the various sales.

Microsoft in Internet shopping buy

By Louise Kehoe in San Francisco

Microsoft yesterday announced the acquisition of eShop, a pioneer in the field of Internet shopping software, best known for its Internet shopping centre, the eShop Plaza. Terms were not disclosed.

The move reflects Microsoft's ambitions to dominate the Internet software field, by overtaking Netscape Communications, the current market leader.

Founded in 1992 and based in San Mateo, California, eShop has developed technology to enable merchants to set up electronic shop fronts on the World Wide Web.

It has provided software for some of the earliest Internet shops including 1-800-Flowers, a floral merchant; Tower Records, a unit of MTS; Good Guys, a consumer electronics retailer; and General Electric's GE Capital Retailer Financial Services unit, which is an eShop investor.

Microsoft said it planned to incorporate eShop's technologies into its Internet Merchant server software, aimed at retailers. This is a critical part of a set of software programs for large commercial Internet applications.

The lack of integrated sets of electronic-commerce programming tools that provided all of the features needed by retailers had been one of the reasons for the slow development of shopping on the Internet, said Mr Paul Maritz, Microsoft group vice-president.

Mr Arnold Blinn, Mr Will Poole and Mr Greg Stein, eShop co-founders, will join Microsoft to help drive its electronic-commerce effort.

Westinghouse makes the big break

No more surprises. That was the promise made little more than two years ago hy Mr Michael Jordan as he took to the platform to make his first presentation to Wall Street analysts after hecoming chairman of Westinghouse Electric.

Following a string of losses as the industrial conglomerate stumbled from one disaster to another, it was a message guaranteed to go down well.

Mr Jordan now seems close to a surprising overhaul of nne of the most venerable industrial names in the US. Westinghouse has not made refrigerators since the 1970s, or light hulbs since 1965. But as recently as two years ago it remained a broad-based industrial group.

On Monday, though, the former PepsiCo executive set in motion the process that could see Westinghouse emerge as a pure hroadcasting and media company.

It is to Mr Jordan's credit that the latest, and possibly final, step in this transformation has come as little surprise on Wall Street.

Since the news last August that he planned to buy CBS, one of the three hig US network television companies, the Westinghouse chairman has been set on repositioning the company to benefit from the growth in the television and radio business.

An attempt to diversify into a different growth industry – financial services – led to disaster and an expensive retreat in the 1980s. This time, there seems to be no going back.

The last act in the restructuring of Westinghouse was ushered in by Monday's announcement that the group was exploring ways to separate its industrial and broadcasting businesses.

It is just seven months since the $5.4bn acquisition of CBS was completed: Westinghouse now expects to take another six months to determine how to handle the tax, legal and financial implications of unscrambling the two sides of the business.

Many uncertainties remain, among them how Westinghouse will apportion its debt ($5.1bn at the end of March) between the two sides and whether the Internal Revenue Service will allow it to transfer some of its $1.5bn of tax losses into a separate broadcasting unit to shelter profits there.

The stock market expressed confidence in the outcome, though, marking the shares up another $¼ yesterday morning to $20, for a gain of 7 per cent since the announcement was made.

Both the company and Wall Street analysts point to a fundamental problem with Westinghouse in its current form. Media investors are put off at the prospect of investing in a group which derives much of its business from making power generation equipment.

This is a business beset by low margins and fierce competition from financially stronger competitors such as General Electric and Siemens.

The company also admitted to the problems inherent in trying to value such a disparate group. Broadcasting investors look to a company's cash flow (or Ebitda – earnings before interest, tax and depreciation) when arriving at its worth. The mature industrial businesses, on the other hand, are valued more on the strength of their balance sheet and earnings.

"It just didn't make sense. They had to deconglomerata this company," says Mr Nicholas Heymann, an analyst at NatWest Securities in New York.

Westinghouse, and its advisers, J.P. Morgan, have now paid heed to this message from the stock market. The long string of disposals has not, on its own, been enough (in the past year, the group has sold its real estate, office furniture and electronics operations and announced plans to close its environmental services business, leaving it with power generation, refrigerated transport and broadcasting).

Mr Jordan has started to look heyond the next step. Whatever the outcoma – a break-up of the group, or perhaps separate classes of stock for its different businesses – he made clear this week that further acquisitions were likely on the broadcasting side.

Wall Street has come in recent months to look more favourably on Mr Jordan's skills as a buyer, not just a seller, of businesses. Last summer, with CBS's ratings on the slide and Disney seizing the headlines with its purchase of the more successful Capital Cities/ABC, Westinghouse's purchase failed to ignite much enthusiasm.

Now, though, CBS has begun to claw its way back up in the ratings, and its recently announced autumn schedule has drawn favourable reviews.

Mr Jordan has also positioned Westinghouse as owner of the country's biggest group of television stations (its 15 stations reach 32 per cent of US households) and one of the biggest radio station groups.

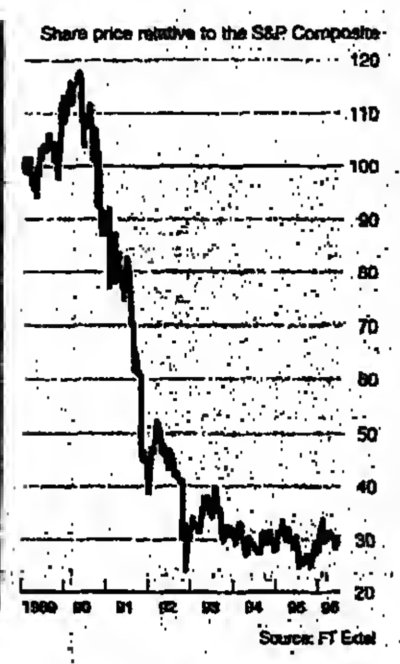
Westinghouse has now set about squeezing cash out of its new acquisitions: in the first three months of the year, operating profits from its 39 radio stations rose 25 per cent as the first benefits were realised.

Adding to the changed perception of the CBS purchase has been the timing of new US broadcasting legislation, which has since cleared the way for station owners to expand their reach. "It was a great huy," Mr Heymann says. "They understood the change in the legislative environment before it was effected."

Richard Waters

Bumpy ride

Michael Jordan
chief executive officer



Source: FT Extel

East Midlands attacks tax plan

By Simon Holberton

Consumers will end up paying for a "windfall profits" tax on utilities, Mr Norman Askew, chief executive of East Midlands, a regional electricity company, warned yesterday.

He said the prospect of the tax, which the Labour party has said it will impose if it wins the next election, was something that utilities had to "factor in" when making future business plans.

"But the customer will pay for it – they always do," he said. "It will feed through one way or the other."

Mr Askew was speaking as East Midlands reported a 34.3 per cent rise to pre-tax profits of £287.5m ($439.9m) for the year to the end of March.

The figures were distorted by the demerger of National Grid late last year. Although the results were better than expected, East Midlands' shares fell 12p as bid speculation about the company subsided.

Mr Askew also said much work still needed to be done to make the 1998 deregulation of electricity supply in Britain a success. He strongly defended the balance East Midlands had struck since privatisation between the interests of shareholders and consumers.

He said that from 1991 until the end of the year on March 31 the company had paid out roughly £850m in ordinary and special dividends and £850m in price reductions and rebates to customers. It had invested a similar amount in the development of the company.

The Labour party and Mr Gordon Brown, its shadow chancellor, have been particularly critical of utilities' privatisation and have proposed a windfall profits tax which some analysts believe could cost the industry as much as £3bn.

Nigel Rudd, chairman, (left), with Norman Askew Colin Beere

Henderson at £20m and plans reorganisation

By Nicholas Denton

Henderson, the fund manager, is to make a stand-alone business of its division handling the administration of investment trusts and personal equity plans, with a view to an eventual sale or spin-off.

The reorganisation – disclosed yesterday as Henderson reported annual profits of £20.2m ($30.9m), above expectations – is part of efforts to refocus its business after a series of UK client defections.

The group is putting increased emphasis on investment trusts, and specialist fund management in areas such as high-technology and Japanese shares, as well as on administration.

Mr Dugald Eadie, group managing director, said fund management companies were increasingly sourcing out services such as custody and administration. "We want to be ahead of the game."

An independent administration unit would be better placed to compete for the small but fast-growing outsourcing market with groups such as WM Company, this year chosen to administer the £22bn portfolio of Scottish Widows.

Initially, administration will be run as a separate activity within Henderson. After two to three years, it might consider a demerger, either through a flotation or a link-up with an existing specialist in administration.

Administration – of third-party funds and Henderson's own – accounts for about £20m of the £70.4m revenues the group reported yesterday in its results for the year ended March 31.

Henderson has traditionally had a strong administration business and handles £2.3bn in third-party funds. But Mr Eadie said it had to regard administration as a business in its own right. "We should not regard this as a hobby," he said.

Henderson said a demerger of administration, a low-margin activity, would improve the group's cost-income ratio. At 77 per cent, the measure is one of the highest in the sector.

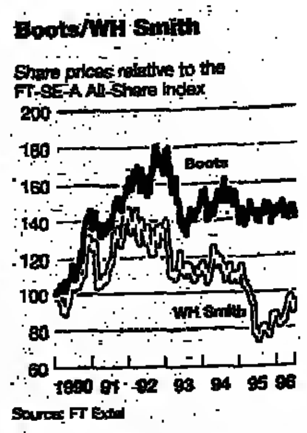
LEX COMMENT

WHS/Boots

In the debate over who has done better out of WH Smith's exit from Do-It-All, the troubled DIY chain which Boots, its former partner in the business, is taking over, neither company has covered itself in glory. It is difficult to argue that WH Smith has made a mistake. The £50m cash it has had to pay Boots to take over the business is far less than the estimated £350m share of the cost of closing it down. But one cannot help but think WH Smith may now have pulled out at the wrong point in the DIY cycle. Certainly, Mr Bill Cockburn, WH Smith's new chief executive, was under pressure to sort out the Do-It-All problem once and for all. And arguably, given the pressing needs of some of the group's other businesses, he is right to concentrate on them, as he implements the rest of the strategic review whose findings are due to be presented today. But Boots is hardly on to a winner. Even if it manages to close the 65 weaker stores which are on the market, leaving it with 134 stronger outlets, these are not likely to be profitable until 1998. And the picture in the DIY market is still mixed. The signs of recovery in residential housing and higher consumer spending certainly encourage the belief that the worst is over. But store capacity is still increasing, and margins are unlikely to bounce back until that trend reverses. Furthermore, despite the improvements made at Do-It-All, its small size relative to the market leaders leaves it vulnerable. That said, with little further investment Boots can hope to make back some of the money it has lost on the chain by selling it in a few years time.

Boots/WH Smith

Share prices relative to the FT-SE-A All-Share Index



Source: FT Extel

News Corp seeks rest of News Intl

By Christopher Price

News Corporation, the international media group headed by Mr Rupert Murdoch, yesterday offered shares worth £508m to the minority shareholders of News International, its UK publishing arm.

The offer, worth 410p for each of News International's special dividend shares, sent their value soaring in London yesterday, to close 63p up at 391p. News Corp shares closed 2p down at 359p.

News Corp owns 82 per cent of News International and the offer for the remainder was described by the company as a "housekeeping" measure to simplify the group's capital structure.

The move would allow News Corp to consolidate News International fully into its accounts. It would also save the cost of administering a public company, removing the need to separate out the UK business. Analysts also suggested that Mr Murdoch, chairman and chief executive of News Corp and its largest shareholder, would have more flexibility in accounting procedures.

News International shareholders are being offered preferred limited voting shares in News Corp. These shares were established two years ago to help News Corp raise capital without diluting the voting interests of existing ordinary shareholders.

Two institutions, representing 38 per cent of the 850 minority shareholders in News International, have agreed to accept the offer which has also been recommended by its independent director.

News Corp is offering 1.33 of its limited voting shares for each News International special dividend share. The company said the value of 410p compared favourably with the mid-market closing price on June 10 of 308p. The issue will represent about 17 per cent of the enlarged number of News Corp limited voting shares.

News Corp is also proposing to cancel News International 4.9 per cent first cumulative preference shares and 5.6 per cent second cumulative preference shares for cash payments of 102p and 117p respectively.

WHS confirms Do-It-All sale

By Christopher Brown-Humes

WH Smith yesterday ended its disastrous six year involvement in Do-It-All, the loss-making DIY chain, by selling its 50 per cent stake to joint venture partner Boots on better-than-expected terms.

Boots will pay a nominal £1 for the stake while WH Smith will inject £50m into the chain over four years.

Shares in WH Smith rose 3p to 484p, while Boots climbed 12½p to 607½p. One analyst said: "Smith is getting out of this on very reasonable terms. A few months ago the market thought they might close the business and lose more than £200m."

The deal allows WH Smith to focus on its core business while giving Boots the chance to "maximise value" at the 134 stores it intends to keep.

WH Smith will write off the £4bn book value of its investment and £65m of goodwill previously written off against reserves. It retains some exposure through parent guarantees covering 55 stores, including 17 earmarked for disposal.

Boots will take a £80m provision to cover asset write-downs and difficult contracts at the chain and expects its profits to be slightly dented this year.

Mr Bill Cockburn, WH Smith chief executive, said: "Our risk exposure is substantially reduced by this deal, and we will not be affected by future trading losses." He said WH Smith had suffered cumulative losses of £36.6m from the chain in the last five years and had injected £75m into the business.

The sale will allow WH Smith to devote more management time to its core retail chain where results have been disappointing. Further details of its plans should emerge today when Mr Cockburn is due to present the results of a strategic review at the group. The plan is expected to include about 1,000 redundancies and the closure of its Sloane Square headquarters.

Boots acknowledged it was taking a risk, but said the reviving DIY market and prospects at the ongoing stores meant now was not the time to sell the business.

Currency gains help Amersham

By Jenny Luesby

Currency gains of £2m in the second half lifted pre-tax profits at Amersham International, the health science group, to £50.8m ($77.72m) in the year to March, a rise of 8 per cent.

The recovery after a static first half was welcomed by the market, with the shares closing up 28p at £10.43.

Full-year sales rose 5 per cent to £351.4m after the group's largest business, life sciences, increased its second-half turnover by 12 per cent. This lifted full-year life sciences sales by 6 per cent, and operating profit by 4 per cent.

Mr Bill Castell, chief executive, said life sciences, which supplies testing equipment to medical researchers, had been held back in the first half by the halt in US public spending during the budget gridlock.

In healthcare, operating profits rose 16 per cent on sales up 10 per cent. Sales of Myoview, the heart imaging agent, doubled to £11m and, in April, the product had been launched in the US.

In October, Amersham will increase its stake in NMP, the Japanese radiopharmaceutical business, from 20 to 50 per cent. This would be earnings enhancing by about 7 per cent in the first year, said Mr Castell. However, the £51.4m deal would lift gearing from 24 per cent to nearly 100 per cent.

'Disastrous' fall to £3m at Babcock

By Tim Burt

Babcock International yesterday blamed lost orders and heavy restructuring charges for what it admitted were "disastrous" results at the engineering, materials handling and facilities management group.

The group, reporting pre-tax profits down from £7.83m to £3.1m ($4.7m) in the year to March 31, said it had been hit by £11.6m of reorganisation costs in the materials handling business, while volumes in its process engineering and African divisions fell sharply.

The results were flattered by a £28.4m gain on the sale of its energy business to Mitsui Engineering & Shipbuilding of Japan and a £3.5m profit on the disposal of a recycling plant in South Africa.

Mr Nick Salmon, chief executive, said the figures represented the nadir of Babcock's fortunes.

Of the group's five divisions, he expressed most disappointment with the materials handling business, which reported a £14m loss (£6.47m profits). That business, based primarily in Germany, had been undermined by high costs, a strong D-Mark and management weaknesses. Reduced volumes also dented process engineering, where lost orders in Saudi Arabia contributed to losses of £7.92m (£3.35m profits).

Ashanti's acquisition trail ends

By Kenneth Gooding, Mining Correspondent

Ashanti Goldfields of Ghana was not actively seeking further acquisitions, Mr Sam Jonah, chief executive, said yesterday.

The group has this year brought to fruition four sets of merger and acquisition talks across three continents, transforming it from "a gold producer with a single mine in Ghana to a group with several operating mines, major development projects and an exploration portfolio that includes land positions on each of the most promising gold mineralisation belts of sub-Saharan Africa," Mr Jonah pointed out.

Pre-tax profit for tha half-year to March 31 dipped from $51.7m to $46.9m reflecting increased mining, exploration and administration costs.

Hedging future gold output bad helped offset rising costs. Hedging bad realised an average of $448 an ounce, $54 higher than the spot price. At March 31 Ashanti had sold 4.1m ounces forward at an average of $432 an ounce and also had sold call options covering 1.1m ounces to expire over the next five years at an average strike price of $459.

Ashanti, listed in London, New York, Accra, Toronto and Zimbabwe, plans a listing on the Australian stock exchange in connection with its merger with Golden Shamrock Mines.

NatWest deal fills hole

George Graham examines the reasons for the $590m acquisition of Greenwich Capital

National Westminster Bank yesterday signed a $590m deal to buy Greenwich Capital Holdings, the US government bond broker, from the Long Term Credit Bank of Japan.

The deal will strengthen NatWest's fixed income operations, which it had identified as one of the most significant weaknesses in the investment banking activities it has sought to build up in its NatWest Markets subsidiary.

"This was an important hole in the group which we are filling today," said Mr Derek Wanless, group chief executive.

Although NatWest Markets has built a substantial base in European equities and some other market segments, Mr Martin Owen, its chief executive, believed it ran the risk of being marginalised if it could not improve its ability to offer clients dollar fixed income products. "It was critical for us if we were to be a real investment bank."

Mr Chip Kruger, co-chief executive of Greenwich, admitted his "original idea was to find someone with a lot of capital who would leave us alone". In the end, however, he concluded Greenwich would benefit from the opportunity to offer its customers e wider range of financial products including equities, Eurobonds, and derivatives.

The acquisition, to be renamed Greenwich NatWest, will largely complete a comprehensive overhaul of the group.

This has included the sale of NatWest Bancorp, the US retail banking arm, for $3.56bn; restructuring the UK retail banking operations; and the purchases of Gleacher, a US mergers and acquisitions boutique, and Gartmore, the UK fund manager.

NatWest is also on the verge of selling its 17 per cent stake in 3i, the UK venture capital group, for about £425m.

This flurry of deals has clouded the profits outlook for NatWest, with a £690m book loss on the Bancorp sale and a likely £350m charge for the UK branch restructuring offsetting the 3i profit.

"The key thing is that the core businesses on which we have focused are all performing very well in terms of income growth and profit growth," said Mr Richard Goeltz, group finance director.

Analysts are split over the group's strategy.

Many accept that NatWest has become a more coherent group focused on its core businesses of UK retail banking, investment banking through NatWest Markets, and international private banking through Coutts.

But some say NatWest has appeared opportunistic, rather than driven by a sensible philosophy.

As one fund manager put it, it is wrong "to glorify the independent acquisition and disposition of businesses as a strategy". NatWest, which is now buying a US broker, appeared just a few weeks ago to have its heart set on buying a UK life asaurance company, be complained.

But Mr Wanless emphasised that the choice was "not an either/or. A life assurance acquisition would still be of interest to us in the UK," be said, arguing that NatWest now had "a group of businesses thet make much more sense together than the disparate businesses we had before".

Greenwich, which specialises in US Treasury bonds and mortgage- and asset-backed securities, made pre-tax profits of $75m in 1995. NatWest's acquisition price of $590m amounts to 11.6 times 1995 earnings, compared with a price earnings ratio for equivalent traded companies of around 12. It will slightly enhance earnings this year.

The price is equivalent to 2.43 times net asset value of $243m, and will reduce NatWest's Tier 1 capital ratio by about 0.5 percentage points.

That will still leave the group comfortably capitalised, and, said Mr Wanless, a share buyback is still "an option which is under consideration".

"We can't run the business on excess capital for long and still make the kind of return on equity we look for."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amberley	Yr to Mar 31	22.9	(13)	3.03	(2)	1.2†	(3.5)	1.1	Oct 1	1	1.4	1.25
Amersham Intl	Yr to Mar 31	351.4	(333.6)	50.8	(47.3)	33.2	(50.6)	13.1	Aug 1	12.1	18	17
Ashanti Goldfields ☆	9 mths to Mar 31	224.4	(192.5)	46.9	(51.7)	53	(57)	12.5	Sept 11	12.5	-	37.5
Babcock Intl	Yr to Mar 31	723.4	(755.1)	3.1♥	(7.83♥)	1.47	(3.2)	1.75	Aug 13	2	3	2
Bradstock	6 mths to Mar 31	16	(17.2)	3.37	(3.55)	102†	(3.64)	1.6	Sept 24	1.6	-	5.7
British Thornton	Yr to Apr 30	5.38	(6.03)	7.13L♠	(0.637)	4.9L	(2.9)	nil	-	1	nil	2
BSS	Yr to Mar 31	316.8	(293.5)	15.1	(14.1)	37.7	(34.7)	14	July 29	13.25	20.5	19.5
CML Micro §	Yr to Mar 31	17.3	(19.8)	1.61	(3.81)	459‡	(13.7)	6.1	Aug 14	6.1	6.1	6.1
Drummond	Yr to Mar 31	46.4	(45.75)	1.2♥	(0.967)	4	(3.17)	1.1	Oct 1	0.75	1.5	0.75
East Midlands	Yr to Mar 31	1,195	(1,369)	287.5♥	(214♥)	12.6‡	(78.5)	22.4	Oct 15	20.4	31.6	28.6
Firth Rixson	6 mths to Mar 31	71.9	(66.7)	3.03	(2.21)	1.4	(1)	0.4	Aug 2	0.3	-	1
Great Portland	Yr to Mar 31	96.5	(93.6)	47.5	(53.1)	10.7	(12.7)	6.1	July 19	5.85	9	8.75
Gresham Computing	Yr to Mar 31	4.58	(3.6)	0.708	(0.521)	1.22	(0.98)	-	-	-	-	0.38
Henderson Admin	Yr to Mar 31	70.4	(57.6)	20.2	(13.1)	6.18	(58.01)	31.5	July 19	31.5	45	45
Marshalls	Yr to Mar 31	237.4	(228.5)	25.8	(28.5)	1.62	(13.5)	3.7	Oct 1	3.5	5.2	5
MFC	28 wks to Apr 13	1,264	(1,140)	30.1	(0.2L)	4.4	(1L)	2.5	Aug 19	[illegible]	[illegible]	7.1
Northern Foods	Yr to Mar 31	1,857	(1,971)	119.8	(164)	5.98	(0.1)	3.5	Oct 1	5.2	9	8.8
Policy Portfolio	Yr to Mar 31	22	(14.8)	1.26	(0.85)	10.7	(7)	4.5	Aug 6	4	8.5	6
Prime People	14 mths to Dec 31 ‡	2.23	(0.769)	0.584L	(0.441L)	35L	(0.57L)	nil	-	nil	nil	nil
Severn Trent	Yr to Mar 31	1,158	(1,076)	373	(267.5)	39.6	(68)	19.33	Oct 1	18.8	32.37	28.87
Thorn EMI	Yr to Mar 31	5,056	(4,507)	477.5	(271.1)	32.1	(25)	28.5	Oct 11	26.75	40	38.5
Toy Options	6 mths to Feb 29 ♦	17.2	(13.7)	1.85	(1.2)	6.32	(6)	1	July 26	-	-	1.73
Vianlon Φ	33 wks to Mar 31	0.004	(-)	0.169L	(-)	1.03L	(-)	-	-	-	-	-
Velox	Yr to Mar 31	181	(165.8)	12.8	(12)	31	(29.4)	13	Oct 1	12.3	20	19

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ¶After exceptional credit. †On increased capital. ☆US currency. ‡‡On reduced capital. §Excludes special payments. ¶Gross rental income. ♣Comparative pro forma. ★Comparatives restated. ♦No comparison due to re-phasing of payments. ‡Comparatives for 12 months. $USM stock. ♠Aim stock.

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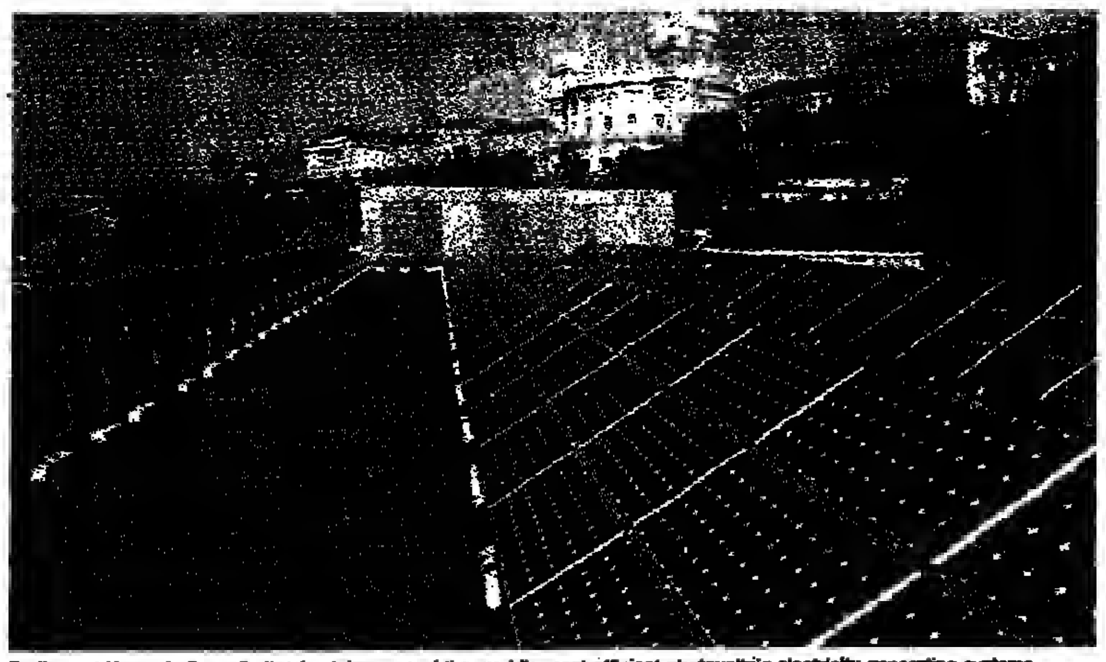
BUSINESS AND THE ENVIRONMENT



Parliament House in Bern, Switzerland, has one of the world's most efficient photovoltaic electricity-generating systems

Solar's warm glow

Lawrie Delroy continues a series on power from the sun with a significant breakthrough in cell production

Solar spotlight

While many governments are worried by the levels of pollution caused by fossil and nuclear fuels, efforts to harness solar energy – often put forward as the best of the alternative energy sources – as a leading power source have proved disappointing.

That may be about to change. Australian scientists are developing solar cells that are both extremely cheap and efficient and have the potential to produce electricity at rates which are lower than with existing fuels.

Martin Green, a professor at the University of New South Wales in Sydney, and his team at the Centre for Photovoltaic Devices and Systems have been developing more efficient solar cells since 1975. In 1985 they made a significant breakthrough when they produced the buried grid technology which uses conductor strips buried within the cell to collect the generated electricity. Previously, the conductor strips lay on the surface of the cell.

That change resulted in an increase in efficiency of 10 percentage points and the technology has since been licensed to most of the biggest cell manufacturers in the world. BP Solar has used it in many important installations including the world's most efficient photovoltaic electricity-generating systems.

The centre has remained at the forefront of solar research and by 1996 was producing cells with an efficiency of 24.5 per cent, where almost one quarter of the light-energy falling on the surface is converted into electricity. However, it is the solar cells currently under development which show the most spectacular potential.

These new cells combine three important initiatives. First, a means of using extremely thin silicon layers has been developed. These cells are composed of five layers with a total depth of only 20 microns (half the thickness of a human hair) and use only one twentieth of the volume of the silicon material used in traditional single-layer cells, which have a thickness of 400 microns (0.4mm).

Because of the peculiar physical properties of light penetrating these very thin layers, inferior and much cheaper material can be used in the manufacture – in fact, material up to 1,000 times less pure than that used in existing cells. Even with this poorer material, an efficiency of 15 per cent can still be achieved.

Second, the buried grid technology has been successfully adapted to the new cells. Third, the new modules can be assembled automatically, thereby greatly reducing manufacturing costs.

These three innovations will have an enormous impact in lowering the cost of producing electricity and it is expected that by 2000 installation costs for solar-generating plants will be reduced to less than $2 (£1.30) per watt peak (costs estimated in US$).

An installation of one watt peak is one which produces one watt of electricity during the sunniest period of the day, usually around noon. Experience has shown that, on average, solar cells produce five watt hours of electricity per day in suitable locations for each one watt peak of installation. A generating establishment costing $2,000, where the unit cost is $2 per watt peak, would produce 5 kilowatt hours of electricity per day over the life of the establishment, which could be expected to be about 30 years.

Allowing for overheads, production costs for such an establishment would be less than 20 cents per kilowatt hour (or about one-third the present cost of producing solar electricity). At that level, solar energy would be more viable as a significant power source for remote areas, such as the outlying islands of Indonesia, or countries where production costs are high because of lack of raw materials, as in Japan.

However, Green is confident that the technology being developed will be capable of much lower costs when in full production, which he expects to take a further 10 years. Present estimates are that by 2010 establishment costs will have fallen well below 80 cents per watt peak. At that price solar electricity will be a viable, economic alternative to traditional forms of electricity production in most countries.

The replacement of traditional power stations by solar ones would overcome most of the pollution problems facing the world today.

Rob Largent, the centre's spokesman, points out that "because environmental problems are expected to lead to both higher generating costs and restriction in output in the future, solar power is likely to become cost competitive at an earlier stage".

Some problems will remain with storage of solar electricity. However, these can be overcome by a range of initiatives, such as introducing variable tariff rates to encourage maximum use during daylight hours, broadening the hours of direct availability by transmitting electricity across vast distances, and linking solar power stations to hydroelectrical schemes to give 24-hour availability.

This type of linkage already exists in the supply of electricity to cities in eastern Australia – peak load power is generated by hydro-electrical stations with water pumped back up into reservoirs during the night using off-peak electricity supplied by thermal power stations.

Supporters of solar energy believe the time is right to re-evaluate its potential.

Largent is optimistic: "The multi-layer technology has the potential to bring clean and cost-effective power to the world – every day our research brings us closer to this realisation." He says that although some engineering problems remain in scaling up systems and determining exact processes for better yields, the basic research is already in place and eventual success is assured.

The first article of the solar series appeared on June 5.

Scientists in Israel have found a way to 'pipe' the sun's energy from the desert to the city, writes **Thomas Land**

Israeli sunshine in the pipeline

Technologists in Israel have overcome one of the biggest single obstacles to the development of solar power for industrial use by devising a process which, in effect, transports sunshine through a pipeline.

A chemical "heatpipe" system, developed by technologists at Israel's Weizmann Institute of Science, promises safe and efficient transmission of energy over long distances.

The system could break a vicious circle which has discouraged investment in solar power generation. Until large solar power plants are started, there is often no incentive to build a long and expensive electric transmission line – and few investors are prepared to build a solar plant until they have the means to get the power to market.

The system has three stages. First, solar energy collected in sunny and otherwise unproductive desert areas is concentrated and used to drive a chemical process at high temperatures.

Then the gases formed during the process are cooled and stored or transported to distant industrial centres where the energy is needed. Finally, the chemical process is reversed, releasing heat that can be used to run turbines generating electricity.

In the first part of the process, solar energy is absorbed in a special chemical reactor (reformer) where methane and other hydrocarbons are converted into synthesis gas (a gas mixture). The energy-rich mixture can be stored or sent by pipeline to the point of use.

In the third stage, the energy present in the synthesis gas is recovered by means of a methanator, a component of the chemical heatpipe, which converts it back to methane, and in the process releases heat which can be used in many ways.

The methane produced by the methanator can be returned to the solar plant to be used again for the production of synthesis gas, thus completing a closed loop system that neither uses fossil fuels nor emits gases into the atmosphere.

The feasibility of this concept has been demonstrated by Moshe Levy, a professor in Weizmann's materials research department. Israel's Ministry of Energy is to join the institute next year in the development of large-scale industrial application.

The chemical heatpipe is "the key to large-scale use of solar energy," says Israel Dostrovsky, the Weizmann technologist who initiated the establishment of the institute's solar research facility and served as its first director.

He explains that the process "enables one to collect the energy of the sun in places like the desert, store it and then send it by pipeline to industrial users and cities where it is really needed".

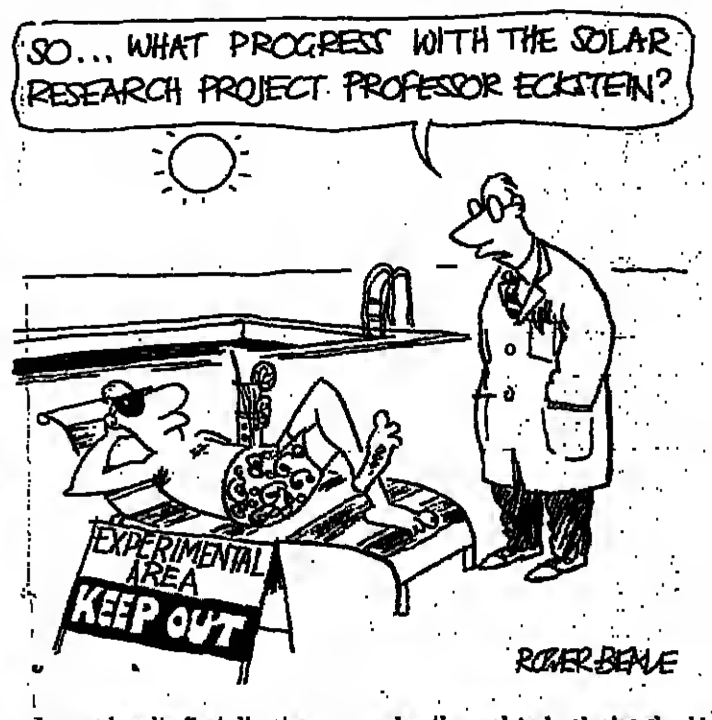
Designed by engineer Michael Epstein, who manages the institute's solar research facilities, the methanator used in the process has been built with the support of Detroit philanthropist William Davidson whose name it bears.

Weizmann's solar facility comprises 64 giant computer-controlled mirrors that track the sun and concentrate its energy on to a 54m receiving tower. It is being used in conjunction with a wide range of energy generation, storage and transport experiments. Their potential range of application is enormous.

The Weizmann solution to storing and transporting solar energy by pipeline is likely to encourage substantial further research and development worldwide. Several recent studies have concluded that solar thermal technologies should be able to provide power within a few years at costs broadly competitive with the price of electricity derived from fossil fuels.

The sheer abundance of solar energy suggests that it will be the foundation of a sustainable world energy system a century from now, observes the Washington-based Worldwatch Institute.

"If we could harness just one quarter of the solar energy that falls on the world's paved areas, we could meet all our current energy needs comfortably," it points out.



COMMODITIES AND AGRICULTURE

Copper price volatility rekindled at the LME

By Kenneth Gooding, Mining Correspondent

The Hamanaka factor returned to rekindle extreme volatility in the London Metal Exchange's copper market yesterday.

Rumours that Mr Yasuo Hamanaka, until very recently perceived to be the most powerful man in the market, had resigned from Sumitomo, the Japanese group, to join Glencore, the Switzerland-based international trading organisation, sent the price crashing by more than 9 per cent in an hour yesterday.

It had previously been lifted by news that LME stocks had fallen by 12,325 tonnes to 296,000 tonnes, their lowest level since the end of last year and, according to many traders, evidence that the buying from China many expected had begun.

The rumours about Mr Hamanaka had some credibility because some of his trader contacts said he was not happy about the recent move that took him away from the day to day hurly-burly as head of copper trading at Sumitomo to a wider role as assistant to the non-ferrous metal division's general manager.

However, a Sumitomo official in London last night denied that Mr Hamanaka had quit.

Traders said the copper price was also forced down from yesterday's peak of US$2,278 a tonne by a big "sell" order and touched $2,070 before ending in after-hours trading at $2,100, down $145 from Monday.

Premiums for copper for immediate delivery were also very volatile. Compared with the price of metal for delivery in three months, the premium for cash metal retreated from over $300 a tonne on Monday to between $175 and $195.

Mr Ted Arnold, analyst at the Merrill Lynch investment bank, said: "The smoke on the battle field is so thick you can't see what is happening. But it seems that any time the copper price rallies, producers, merchants and, possibly, the US hedge funds, come in and sell."

At Flemings Global Mining Group, Mr Nick Moore said that, although the turmoil would take some time to die down, "the ultimate direction [of the copper price] is a continuation of the downward trend".

The analysts suggested a substantial fall in LME copper stocks had been widely anticipated and was already in the price yesterday.

Some observers were surprised, however, because the metal was taken from warehouses in Hamburg and Rotterdam rather than Long Beach in California which is closer to China. Traders said that was because the copper at Long Beach was tightly held – one described it as "Sumitomo's cache" – and expensive to withdraw from stock. Also, it was claimed that moving large tonnages of metal was difficult at Long Beach and that only about 500 tonnes a day could be moved out.

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	-2,325	to 882,825
Aluminium alloy	+280	to 86,560
Copper	-12,325	to 296,000
Lead	-325	to 91,750
Nickel	-438	to 34,254
Zinc	-2,075	to 687,125
Tin	+305	to 10,240

Ok Tedi copper mine damage claim settled

By Nikki Tait in Sydney

BHP, the Australian resources group, has reached an out-of-court settlement with the Papua New Guinean villagers who were suing it over environmental damage to the area surrounding the large Ok Tedi copper mine.

This will see the "Big Australian" pay the villagers' legal costs; fund a solution to the tailings problem at the mine separately from any compensation package; and provide a "special" package of benefits for villages on the Lower Ok Tedi River, worst affected by the environmental damage.

In addition, as previously agreed, BHP will go ahead with the "general compensation" package, said to be worth around 110m kina (US$87m) over the mine's remaining 15-year life. Previously, expenditure on tailings-related remedies could have reduced this sum.

All legal actions, in Australia and PNG, will be dropped.

The liability claim was brought by the villagers in the Australian courts two years ago and has been a major embarrassment for BHP. It has attracted international attention, with Mr Ralph Nader, the US consumer activist, among BHP's harshest critics.

At the last annual meeting, board members had two dead fish dumped, symbolically, at their feet.

The environmental problems date back to the mid-1980s, when a massive landslide occured on the site where a tailings dam was due to be built. Ok Tedi Mining – now a subsidiary of BHP – subsequently argued that the high costs of building a retaining dam would make the operation uneconomic. The PNG government eventually gave permission for the project to go ahead, with the mine discharging waste sediments and residues into the Ok Tedi and Fly River systems.

Yesterday, BHP said that the villagers' legal costs had been agreed at A$7.6m. It added that it was "committed to finding ways to reduce the amount of tailings" entering the river systems, and said that piping tailing to land below the mountains was one of the options "under serious consideration". The "ball-park cost" of such a project is put at around A$300m-A$400m.

Slater & Gordon, acting for the villagers, said the package for those living on the Lower Ok Tedi was A$40m. According to BHP, this is "intended to provide direct benefits to landowners and villagers, including training and development opportunities, lease payments for areas affected by sediment deposition, grants for villagers to develop businesses in the area, and the relocation of any village that seek it as a result of damage from flooding".

The number of villagers said to be living in the general area is put at 43,000, although the figure for the lower Ok Tedi is smaller.

● Australia's High Court, its highest judicial authority, yesterday began hearing a native title claim by the Wik people over a 35,000 square km parcel of land in northern Queensland, including the southern part of the valuable Weipa bauxite lease held by London-based RTZ-CRA.

The Wik hearing is being seen a test case, which may help to clarify whether past grants of pastoral leases extinguished native title rights. Uncertainty on this issue – which Australia's native title legislation in 1993 left unclear – has stalled mining and rural developments in recent months.

The Wik hearing will involve about 20 parties, including aboriginal groups, pastoralists, mining companies and both state and federal governments.

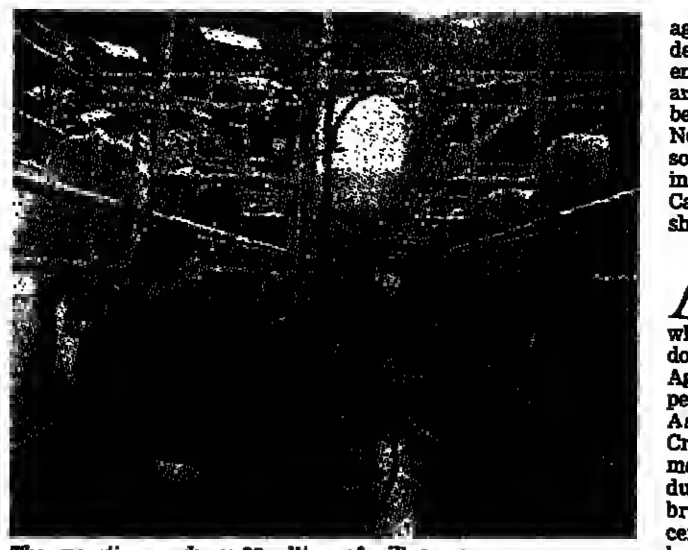
The Co-op celebrates a century on the land

Geoff Tansey looks at the diverse operations of, probably, Britain's biggest farming group

Mike Calvert is certainly Britain's largest dairy farmer – and probably runs the country's largest farming operation. As general manager of CWS Agriculture – which is celebrating its centenary this year – he is responsible for an operation that milks some 4,000 cows a day and produces 32m litres of milk a year.

Today sees the official opening of a £2.2m, 500 cow unit at Frisby on CWS's Stoughton estate. The cows are managed as two 250-head herds in a high-tech facility that is divided into two halves. One stockman is responsible for each herd, out of a five-man team.

Standing in the glass-fronted office where computers will record data on each cow, the stockpens on either side and twin milking parlours are visible. The cows are milked three times a day and each milking takes about 3 hours from start to finish. A computer-controlled sweeper continuously clears the muck behind each pen and an underground conveyor-belt system takes it to a "weeping wall" enclosure, which can bold a year's worth of solid waste. Slats in the wall allow the liquid to drain off into large storage tanks before it is used on the land.



The operation produces 32m litres of milk a year

This is the biggest of 15 dairy units on six estates and two under joint venture agreements run by CWS Agriculture. It owns over 28,000 acres and farms over 50,000 acres (20,000ha) through a number of farm management contracts. The operation has come a long way since it began with the purchase of the 714-acre Roden estate near Shrewsbury on June 6, 1896 for £30,000. In 1995, a turnover of £28m yielded a profit of £5.6m, up from £4.7m in 1994. The target this year is £6m.

CWS Agriculture is an operating group within CWS (the Co-operative Wholesale Society), which runs fairly autonomously according to Mr Calvert. Dairying accounts for no more than a sixth of the business, which has 30 different farming enterprises – each is run as a profit centre and managed separately. There is a deliberately diverse range of enterprises – from soft fruit to arable and from dairying to bees. The farms stretch from North East Scotland to the southern half of England and include the management of the Castle Howard Estate in Yorkshire.

Although it is part of CWS, it does not have to sell to either the wholesale or retail co-ops, nor do they have to buy from CWS Agriculture. Even so, about 60 per cent of its milk goes to Associated Co-operative Creameries at Uttoxeter and most of its peas and sprout production ends up in Co-op branded frozen packs. The cereals are sold across the board and fresh vegetables are sold both to Co-op retailers and through growers co-operatives.

"Our business is big enough, diverse enough, that no one part can bring it down," says Mr Calvert. "I reckon it's easier for me to run this business than for the average family farmer to run his farm."

With about 260 full-time employees, he has a wide range of skills to draw on and people with whom he can talk through problems – something he's been glad of during the "mad cow disease" crisis. There is also a management training system and career structure for the staff. Size has also given them the flexibility and opportunity to experiment – and on a fairly grand scale not on small-scale trial plots.

"We approach it as a farmer, experiments must be able to handle big kit. If you have 10-acre fields you need the technology for that," says Mr Calvert. The company has been operating a 260-acre organic farm within the Stoughton estate as a completely separate entity since 1989. It is divided into a traditional, mixed farming part and a stockless arable system. The full results from the rotation are due after another year.

"Organic farming is extremely remote from farm systems today but no doubt some of the systems used are effective in suppressing diseases and pests," says the enthusiastic trials manager Alastair Leake. He wanted to try something between a full organic system and high-input intensive systems. This led to a "Focus on Farming Practice Project" co-sponsored by fertiliser manufacturer Hydro Agri and Profarma, an agro-chemical distributor, that started in 1993.

Today the results can be seen across a lush valley, lined with hedgerows, and a series of seven fields covering a total of 150 acres, each split in half, one half farmed with a lower-input system, the other intensively. There is a seven-year rotation – two years grass, winter wheat, beans, winter wheat, set-aside and winter wheat. Only the darker green colour in one half of the winter wheat field gives any indication of the difference. The slightly lighter half has lower inputs – using only 27 grammes per hectare of a pesticide compared with 60g the other half, for example. Although the trials are incomplete, the key point of results so far, says Mr Leake, is that although reduced inputs do affect yields are "profitability has been maintained".

Focus on Farming Practice – Making Integrated Farm Management Work for You: from CWS Agriculture, The White House, Stoughton, Leicester LE2 2FL, Fax 0116 272 0640. To celebrate their 100th anniversary six CWS Agriculture farms will be open to the public on June 15. Hundreds more farms are also open over the summer as part of the NFU's "Welcome to the Countryside programme".

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1476.5-77.5	1511-12
Previous	1499.5-500.5	1534-35
High/low		1542/1507
AM Official	1491-92	1527-28
Kerb close		1510-11
Open int.	232,223	
Total daily turnover	75,410	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1245-55	1280-85
Previous	1245-55	1285-95
High/low	1265	1290/1280
AM Official	1260-61	1290-300
Kerb close		1280-90
Open int.	5,064	
Total daily turnover	1,021	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	812-3	812-3
Previous	824.5-5.5	822-3
High/low		822/801
AM Official	815-6	815-6
Kerb close		800-1
Open int.	34,193	
Total daily turnover	7,463	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7775-85	7885-95
Previous	7800-01	7910-20
High/low		7970/7880
AM Official	7800-10	7890-900
Kerb close		7890-900
Open int.	45,522	
Total daily turnover	10,330	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6180-90	6180-85
Previous	6195-205	6210-20
High/low	6205	6210/6175
AM Official	6205-10	9190-200
Kerb close		6170-80
Open int.	17,434	
Total daily turnover	4,376	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1015-16	1039.5-40
Previous	1020.5-21.5	1045-46
High/low	1016/1015.5	1046/1040
AM Official	1015.5-16.5	1040-40.5
Kerb close		1039-40
Open int.	74,117	
Total daily turnover	20,897	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2280-90	2110-20
Previous	2620-30	2235-40
High/low		2278/2080
AM Official	2260-90	2135-45
Kerb close		2100-10
Open int.	193,823	
Total daily turnover	89,413	

■ LME AM Official £/$ rate: 1.5366
LME Closing £/$ rate: 1.5361

Spot: 1.5357 3 mths: 1.5347 6 mths: 1.5350 9 mths: 1.5356

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	106.00	-9.10	109.50	106.00	251	3,015
Jul	101.30	-6.65	109.15	100.70	5,803	16,147
Aug	98.90	-6.15	102.00	100.00	10	1,091
Sep	96.45	-5.55	102.00	95.70	2,444	9,683
Oct	96.05	-5.30	98.50	96.50	159	884
Nov	95.25	-4.80	96.90	96.00	156	782
Total					10,025	49,085

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	384.00-384.40		
Opening	385.50-385.90		
Morning fix	385.40	250.83	487.03
Afternoon fix	384.90	250.54	486.82
Day's High	385.70-386.10		
Day's Low	383.50-383.90		
Previous close	385.70-386.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.35	6 months	4.35
2 months	4.35	12 months	4.20
3 months	4.35		

Silver Fix	p/troy oz.	US cts equiv.
Spot	336.40	517.00
3 months	340.55	523.10
6 months	344.55	529.35
1 year	353.55	543.75

Gold Coins	$ price	£ equiv
Krugerrand	386-389	251-253
Maple Leaf	394.55-397.05	
New Sovereign	86-89	56-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	384.2	-1.5	385.5	383.2	1,367	1,544
Jul	385.4	-1.6	-	-	-	-
Aug	386.9	-1.6	388.7	385.1	13,228	84,056
Oct	389.7	-1.7	390.3	388.5	138	7,078
Dec	392.5	-1.8	394.8	390.8	1,158	37,191
Feb	395.3	-1.8	395.3	395.3	550	6,717
Total					17,948	188,193

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	393.0	-0.9	393.5	390.5	222	16,691
Oct	395.8	-0.9	396.5	393.5	1,050	8,044
Jan	398.8	-0.9	398.7	396.8	5	1,235
Apr	401.8	-0.9	403.0	401.0	53	1,706
Total					3,433	27,899

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	128.75	-0.80	-	-	11	228
Sep	129.15	-0.90	129.75	128.25	430	6,984
Dec	130.25	-0.90	129.50	129.50	16	908
Total					254	8,234

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	508.5	-7.6	506.0	506.0	-	-
Jul	510.0	-7.7	518.5	504.0	5,109	61,336
Aug	512.7	-7.7	-	-	-	-
Sep	515.4	-7.9	523.5	509.0	1,759	20,374
Dec	523.4	-8.0	530.0	518.0	452	11,667
Mar	531.5	-0.1	535.0	529.0	1,385	5,118
Total					8,389	109,056

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	20.09	-0.16	20.25	19.85	30,893	74,544
Aug	18.28	-0.16	19.43	18.12	16,042	58,811
Sep	18.77	-0.18	18.91	18.66	5,261	35,649
Oct	18.47	-0.14	18.55	18.36	2,136	26,932
Nov	18.28	-0.13	18.32	18.24	1,437	22,033
Dec	18.12	-0.14	18.20	18.10	1,503	35,142
Total					63,675	392,780

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.04	-0.24	18.18	17.98	15,943	34,274
Aug	17.82	-0.20	17.76	17.57	10,863	68,182
Sep	17.32	-0.18	17.44	17.29	1,082	15,454
Oct	17.12	-0.16	17.24	17.10	511	17,216
Nov	16.98	-0.14	17.07	16.98	140	4,665
Dec	16.85	-0.13	16.92	16.85	476	11,046
Total					28,732	177,679

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.00	-0.40	51.35	50.50	7,521	23,045
Aug	51.40	-0.46	51.65	51.05	3,031	16,871
Sep	51.95	-0.36	51.95	51.60	965	9,257
Oct	52.45	-0.46	52.70	52.35	21	5,374
Nov	52.80	-0.66	53.15	52.80	6	6,587
Dec	53.60	-0.41	53.70	53.50	193	18,537
Total					14,333	99,514

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	162.25	+0.25	162.50	160.50	5,798	6,482
Jul	159.25	-1.00	159.75	158.25	5,783	18,319
Aug	158.25	-1.50	159.50	157.75	1,131	11,759
Sep	159.25	-1.25	159.25	158.50	106	5,686
Oct	160.00	-1.25	160.50	160.00	150	2,016
Nov	160.50	-1.25	161.25	161.25	274	1,600
Total					13,336	58,548

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.417	+0.027	2.430	2.382	6,962	29,763
Aug	2.488	+0.010	2.490	2.455	5,154	26,203
Sep	2.490	+0.027	2.490	2.455	1,693	16,388
Oct	2.475	+0.037	2.485	2.435	1,078	14,850
Nov	2.480	+0.035	2.485	2.445	395	10,821
Dec	2.520	+0.027	2.525	2.490	398	12,213
Total					28,895	151,825

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	60.70	-0.70	61.45	60.05	12,784	23,846
Aug	59.35	-0.59	59.95	59.00	5,375	17,233
Sep	57.60	-0.44	57.90	57.30	844	6,626
Oct	55.10	-0.44	55.10	54.90	45	2,351
Nov	54.00	-	54.00	54.00	11	1,162
Dec	53.10	-	53.25	53.00	15	1,177
Total					20,840	53,732

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	120.15	-0.65	120.50	120.00	180	1,108
Sep	114.50	+0.30	115.00	115.00	15	365
Nov	116.25	+0.35	116.75	116.25	115	3,028
Jan	118.25	+0.25	118.75	118.50	16	981
Mar	120.20	+0.20	120.75	120.25	29	248
May	122.20	+0.20	122.75	122.75	6	113
Total					371	5,843

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	509.00	-10.50	524.50	499.50	16,251	38,270
Sep	512.00	-12.00	528.50	504.00	5,347	22,633
Dec	519.00	-12.50	536.00	511.50	4,735	20,103
Mar	517.00	-14.00	534.00	512.00	188	2,679
May	479.00	-20.00	497.00	479.00	8	111
Jul	437.00	-5.00	442.00	437.00	45	1,618
Total					26,574	85,468

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	471.00	-	489.00	464.00	9,950	98,655
Sep	403.00	-2.00	420.00	398.00	4,970	65,980
Dec	358.00	-5.75	374.00	355.50	13,717	162,356
Mar	362.75	-7.50	378.00	360.50	968	20,841
May	365.00	-7.00	382.00	363.00	158	3,738
Jul	364.50	-6.50	375.00	361.50	187	4,166
Total					31,878	360,726

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	106.40	-	-	-	-	66
Nov	109.25	+0.75	109.75	109.00	28	697
Jan	112.00	+1.60	111.50	111.50	3	138
Mar	112.00	-	-	-	-	41
May	113.25	-	-	-	-	6
Total					31	950

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	775.25	-15.75	792.50	773.50	15,386	50,506
Aug	771.00	-14.00	790.00	770.00	3,683	18,264
Sep	752.50	-14.25	765.00	752.00	884	7,401
Nov	741.50	-15.50	759.50	740.00	26,789	94,278
Jan	747.00	-15.50	763.00	746.50	194	7,053
Mar	752.50	-16.00	764.00	752.50	105	3,298
Total					47,482	179,941

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	26.31	-0.33	26.68	26.24	7,473	31,741
Aug	26.48	-0.34	26.90	26.42	1,739	14,683
Sep	26.67	-0.37	27.00	26.61	812	7,155
Oct	26.70	-0.42	27.23	26.78	167	5,727
Dec	27.09	-0.40	27.47	27.00	3,478	22,767
Jan	27.12	-0.45	27.50	27.12	217	1,945
Total					14,211	86,476

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	237.7	-3.9	242.6	237.0	10,924	36,308
Aug	237.7	-3.5	241.5	237.0	3,061	12,975
Sep	238.2	-3.8	239.5	236.0	601	8,905
Oct	231.0	-4.9	235.3	230.5	757	4,169
Dec	230.6	-4.6	234.5	230.5	3,753	21,871
Jan	230.5	-5.8	235.0	230.5	350	2,127
Total					19,689	89,359

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.8	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	145.3	+1.8	148.0	145.0	126	1,204
May	159.0	-	-	-	-	3
Jun	182.5	-	-	-	-	-
Total					126	1,207

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1255	-10	1260	1255	6	580
Jul	1209	-3	1220	1205	70	2,095
Aug	1210	-3	1218	1205	18	98
Oct	1325	-1	1326	1324	14	1,423
Jan	1338	-4	1340	1335	17	148
Apr	1345	-	-	-	-	83
Total					126	4,439

	Close	Prev
BFI	1302	1315

FUTURES DATA
All futures data supplied by CMS.

Minor Metals

European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 2,950-3,075. Bismuth: min. 99.99%, tonne lots 3.20-3.70. Cadmium: min. 99.95%, 85-90 (85-95) cents a pound. Cobalt: MB free market, 99.8%, 26.00-27.00 (27.00-27.75); 88.3%, 24.40-25.00 (24.95-25.45). Mercury: min. 99.99%, $ per 76 lb flask, 160-175. Molybdenum: drummed molybdic oxide, 3.25-3.50 (3.15-3.25). Selenium: min 99.5%, 3.20-4.20 (3.20-4.10). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 52-62. Vanadium: min. 98%, cif, 3.05-3.15. Uranium: Nuexco exchange value, 15.00 (14.50).

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1116	+1	1117	1105	3,015	10,889
Sep	1143	+1	1145	1134	1,051	44,633
Dec	1052	+3	1055	1046	2,704	33,082
Mar	1034	+3	1039	1029	571	36,506
May	1044	+3	1047	1038	170	20,642
Jul	1053	+3	1053	1050	63	11,291
Total					8,170	167,400

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1413	+25	1415	1379	4,616	15,155
Sep	1432	+24	1434	1404	3,956	23,578
Dec	1441	+23	1443	1417	760	17,435
Mar	1453	+18	1455	1432	116	13,701
May	1468	+19	1457	1457	25	6,881
Jul	1475	+25	-	-	1	5,900
Total					9,476	87,988

■ COCOA (ICCO) (SDR's/tonne)

Jun 10	Price	Prev. day
Daily	1074.90	1061.76

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1791	+8	1796	1775	3,120	14,004
Sep	1753	-10	1768	1745	1,304	8,037
Nov	1738	-14	1753	1733	527	3,633
Jan	1712	-15	1728	1713	194	1,836
Mar	1682	-12	1699	1690	21	979
May	1673	-15	1685	1685	8	8
Total					5,188	28,497

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	117.30	-0.45	118.30	116.75	6,177	11,526
Sep	115.65	-0.45	116.80	115.30	2,891	8,886
Dec	113.50	-0.20	114.50	113.00	414	4,044
Mar	111.18	-1.15	112.80	111.10	163	1,128
May	111.00	-1.10	112.50	111.00	48	383
Jul	109.50	-2.05	-	-	3	75
Total					9,718	26,123

■ COFFEE (ICO) (US cents/pound)

Jun 10		Prev. day
Comp. daily	105.08	103.86
15 day average	105.43	105.99

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	383.0	+1.6	383.5	381.5	887	10,336
Oct	345.0	+2.0	345.8	343.1	601	6,599
Dec	332.5	+2.2	332.0	331.0	4	3,916
Mar	327.7	+2.2	327.5	326.0	436	3,829
May	327.2	+1.9	325.8	325.1	245	1,705
Aug	326.5	+1.2	324.2	324.2	106	641
Total					2,276	27,425

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.00	+0.36	11.84	11.50	8,503	52,138
Oct	11.05	+0.29	11.18	10.78	3,302	39,950
Mar	10.89	+0.12	10.70	10.61	1,526	30,704
May	10.54	+0.07	10.55	10.51	838	10,072
Jul	10.42	+0.02	10.45	10.42	431	9,791
Oct	10.36	+0.01	10.39	10.39	807	4,165
Total					15,219	147,325

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	80.03	-1.89	51.72	79.50	3,106	19,088
Oct	78.45	-0.55	79.40	78.25	592	5,465
Dec	77.66	-0.54	78.40	77.40	2,291	28,009
Mar	78.52	-0.45	79.15	78.50	132	5,341
May	79.30	-0.30	79.60	79.25	51	2,367
Jul	79.95	-0.20	-	-	81	1,049
Total					6,194	64,977

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	119.18	-1.05	121.90	119.10	1,120	9,689
Sep	117.50	-1.45	119.70	117.50	838	6,001
Nov	114.10	-1.65	116.20	114.10	57	1,758
Jan	112.50	-1.35	113.50	111.95	58	3,855
Mar	114.00	-1.30	115.30	114.70	21	285
May	116.00	-0.30	115.70	115.70	13	173
Total					2,107	21,737

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 11	Jun 10	month ago	year ago
2091.5	2210.5	2158.0	2289.1

■ CRB Futures (Base: 1967=100)

Jun 10	Jun 7	month ago	year ago
251.89	250.69	260.64	N/A

■ GSCI Spot (Base: 1970=100)

Jun 10	Jun 7	month ago	year ago
204.47	203.45	209.32	179.99

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	64.850	+1.050	64.775	63.650	8,505	11,595
Aug	66.875	+0.825	66.750	65.950	8,068	35,818
Oct	67.525	+0.500	67.575	66.850	2,370	23,779
Dec	65.225	+0.750	65.250	64.450	1,699	11,625
Feb	64.200	+0.675	64.250	63.450	988	10,976
Apr	66.925	+0.525	66.950	66.350	348	3,167
Total					22,286	98,828

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	60.975	-1.075	61.500	60.550	2,727	5,543
Jul	58.375	-1.000	59.250	57.875	3,229	8,618
Aug	55.800	-0.600	56.300	55.050	3,143	10,275
Oct	51.125	-0.125	51.200	50.200	861	5,789
Dec	53.975	-	54.000	52.900	562	5,687
Feb	75.250	-	75.450	74.550	198	1,508
Total					10,857	38,512

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	80.750	-0.950	81.600	79.700	317	5,109
Aug	77.825	-0.650	78.400	76.475	437	2,990
Feb	80.300	+0.350	80.800	79.300	311	776
Mar	81.400	+0.800	81.400	80.000	7	53
May	82.350	-0.100	82.350	80.450	15	56
Total					1,087	8,984

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM

(99.7%) LME	Jul	Sep	Jul	Sep
1450	57	109	13	33
1500	28	79	34	52
1550	11	56	67	76

■ COPPER

(Grade A) LME	Jul	Sep	Jul	Sep
2100	131	-	48	-
2150	-	81	93	179
2200	83	-	155	-

■ COFFEE LCE	Jul	Sep	Jul	Sep
1800	36	120	45	187
1850	16	102	77	199
1800	8	87	117	234

■ COCOA LCE	Jul	Sep	Jul	Sep
875	241	269	-	1
900	216	245	-	2
925	191	222	-	4

■ BRENT CRUDE IPE

	Jul	Aug	Jul	Aug
1800	-	32	-	-
1850	6	17	20	-
1900	-	5	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.56-7.66x	+0.02
Brent Blend (dated)	$18.26-8.28	-0.18
Brent Blend (July)	$18.16-8.18	-0.15
W.T.I.	$20.16-0.18x	-0.185

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$199-201	-1
Gas Oil	$162-163	
Heavy Fuel Oil	$80-82	-1
Naphtha	$173-176	-1
Jet fuel	$187-188	
Diesel	$184-186	

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	10.50-10.90	+0.05

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

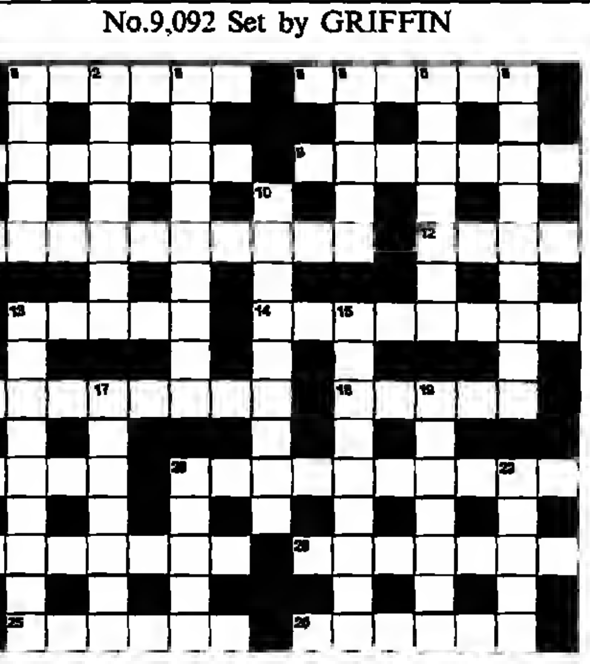
Gold (per troy oz)♣	$385.85	-1.65
Silver (per troy oz)♣	508.50c	-11.0
Platinum (per troy oz.)	$391.25	-1.25
Palladium (per troy oz.)	$128.00	-0.35
Copper	122.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.31r	
Tin (New York)	290.50	
Cattle (live weight)	102.64p	+3.06*
Sheep (live weight)	137.74p	-13.92*
Pigs (live weight)†	114.91p	-1.06*
Lon. day sugar (raw)	$300.4	-5.0
Lon. day sugar (wte)	$399.0	-1.0
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	99.75p	-0.25
Rubber (Jul)♥	98.75p	-0.25
Rubber (KL RSS No1)	365.50m	+2.00
Coconut Oil (Phil)§	850.0v	+30.0
Palm Oil (Malay.)§	$517.5	+7.5
Copra (Phil)§	$521.0	
Soyabeans (US)	214.0z	-3.0
Cotton Outlook'A' index	84.65c	
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Jul. v May/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,139 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,092 Set by GRIFFIN



ACROSS
1 Squeeze through with child (6)
4 About to polish and brush off (6)
8 Briskly slam and try to run off (7)
9 County destroyed atmosphere, people say (7)
11 So rich models miss introducing singers? (10)
12 Waterfall (4)
13 Delivery vehicle, even with nothing in (5)
14 Master on French horse (8)
16 Sweetheart not originally going to firm's dance (8)
18 Imply friend'e endlessly drunk (5)
20 Drop of liquid round bearing's oot good (4)
21 Writers drop marks (10)
23 Leaves oo back of agile replacement (7)
24 Retreating into capital city look for missile (7)
25 Crown princess made off (6)
26 Insult by leaving tip (6)

DOWN
1 Speed after any topless beautiful maiden! (5)
2 One in wine company's covered entrance (7)
3 Inform Nigel then scatter (9)
5 Once it is cut down, leaves (5)
6 Subject to work experience (7)
7 An alien, if green or otherwise! (9)
10 A teacher stands to let out pupil of Plato (9)
13 Lie on imitation folding roof (9)
15 Wet weather wear for pair on manoeuvres (9)
17 Forced artist to swallow one drink (7)
19 Stop leaving friend by entrance to warship (7)
21 It's played to irritate the French! (5)
22 Irritated yet had a go (5)

Solution 9,091

BEDSIT COBBLERS
A R N U R M A
CRETAN STRATEGY
T S S S I T I
ERSATZ REASSIGN
R I A BAT E C G
IGNITE N H
A G ELECTED V C
M H MOOLISH
C A C EEL G R A
ALLCLEAR USAGES
M P O S G I T
PLAYSUIT BOUNCE
U C E E D I N
STANDARD BYPASS

INTERNATIONAL CAPITAL MARKETS

Treasuries rise on producer prices data

By Lisa Bransten in New York and Samer Iskandar in London

Signs that inflationary pressures remain subdued helped US Treasury prices recover some of the ground yesterday that they had lost in the previous two sessions.

Near midday, the benchmark 30-year Treasury was up ¼ at 86½ to yield 7.090 per cent, the two-year note ⅛ higher at 99⅞, yielding 6.341 per cent, and the September 30-year Treasury bond up ⅛ to 106¾.

The yield curve between two-year notes and 30-year bonds continued its recent steepening trend, climbing 3 basis points to 75 basis points.

Yesterday's figures on producer prices helped ease fears about inflationary pressures, and a possible move by the Federal Reserve to tighten monetary policy, that have roiled the market recently.

The Labour Department said the Producer Price Index fell 0.1 per cent in May, compared with the median forecast of a 0.4 per cent increase. Excluding the volatile food and energy components, the PPI was unchanged.

Economists from HSBC James Capel said: "Clearly, this report provides no ammunition for a tightening in monetary policy."

Also helping to ease inflation worries was a decline of 1.96 in the Knight Ridder/Commodity Research bureau commodity index to 249.93.

■ European bond markets ended higher on the back of a rallying US Treasury market. Italian bonds, however, suffered a temporary setback.

Liffe's September BTP future settled at 115.45, up 0.22. The contract, which had started the day at 115.10, fell rapidly to 114.44 as traders misinterpreted the new government's tax reform plans.

GOVERNMENT BONDS

However, the market later regained its footing when Mr Vincenzo Visco, the finance minister, confirmed that non-resident investors would still be exempted from a 12.5 per cent withholding tax, as planned, at the start of 1997.

Traders are awaiting the release next week of inflation data for June. "If the consumer price index comes down to around 4 per cent, the Bank of Italy could start cutting rates later this month or early in July," said Mr Bruno Rovelli, an economist at Bank of America in Milan.

After widening by up to 10 basis points during the session, the 10-year yield spread over bunds ended the day only one point higher, at 308 points.

■ Although bunds derived their support from Treasuries, the German market outperformed the US, widening the 10-year yield premium of Treasuries by 4 basis points to 57 points. Liffe's September bund future closed at 95.41, up 0.18.

Expectations that the German government is about to start issuing short-dated debt were revived when the Bundesbank said it would hold a press conference tomorrow to announce changes in government bond issuance.

■ French bonds traded in line with bunds. Matif's June notional future settled at 123.16, up 0.10. In the cash market, the 10-year benchmark OAT gained 0.11 to 105.26, yielding 3 basis points less than the equivalent bund, unchanged from Monday.

Economists at Crédit Lyonnais expect 10-year OATs to continue attracting domestic demand. They forecast further OAT outperformance compared with bunds, with the 10-year yield gap widening to around 20 basis points.

■ Spurred by the bullish international environment, Spanish bonos outperformed most other markets.

The June bono future closed at 99.28, up 0.66, while the 10-year benchmark bond rallied by 0.64 to close at 97.92.

Slovenia in Yugoslavian debt-swap bond issue

By Kevin Done, East Europe Correspondent

Slovenia yesterday issued new bonds totalling $812.5m in exchange for its share of the commercial bank debt of former Yugoslavia.

The transaction, which marks the culmination of three years of negotiations with the London Club of commercial banks, went ahead despite a new legal challenge to the deal in the US.

Yucyco, a Cyprus-registered company which claims it holds $29.5m of former Yugoslavia's debt, is suing Slovenia in the US district court in southern New York for excluding it from the exchange offer. Slovenia has excluded all Serbian holders of the debt.

Yucyco, owned by Mr Bogoljub Karic, a Serbian-born businessman, is seeking to have the debt exchange declared "void and illegal". Separately, rump Yugoslavia – Serbia and Montenegro – has already started action against the deal in the High Court in London.

Under the exchange, Slovenia has taken on 18 per cent of the foreign bank debt of former Yugoslavia held by qualifying creditors.

In return, all Slovenian entities have been released from their obligations for "joint and several liability" for all the $4.4bn debt of former Yugoslavia contained in the New Financing Agreement of 1988.

The NFA was the last debt restructuring deal made by Belgrade with the London Club before the break-up of Yugoslavia in 1991 and the default in early 1992.

Mr Mojmir Mrak, chief debt negotiator for Slovenia, which declared independence in 1991, said that yesterday's deal had allowed the country "to free itself of the burdens" of the NFA debt.

Hellenic Republic to benefit from reduced margins

By Antonia Sharpe

The Hellenic Republic is poised to make its annual appearance in the syndicated loans market with a $500m five-year loan.

The reduction in interest margins over the past year, particularly for emerging-market credits, should work in the borrower's favour.

The margin on the loan is expected to be about 50 basis points over London interbank

SYNDICATED LOANS

offered rate, compared with 80 basis points on last year's facility. Including fees, the all-in cost should be slightly over 60 basis points.

Bankers said the sovereign would have pressed for even finer terms had it not been for the difficult syndication last month of a $35m loan for OASA, the Athens transport system, which had a margin of 40 basis points.

In view of the size of the loan and increasing selectivity among lenders, the Hellenic Republic would have to offer terms which appeal to a wide range of banks, they added.

Relationship banks are waiting to hear if they will be included in the slimmed-down arranger group, which should be announced in the next few weeks. In the past, the sovereign has opted for large groups of about 20 banks, but this time it has decided to halve the number of arrangers.

Corporate borrowers are also taking advantage of depressed margins to refinance existing facilities. New loans include a $2.5bn seven-year revolving credit for Philips, arranged by ABN Amro, Citibank and Sumitomo. The loan, which will be the company's main backstop facility, has a margin of 17½ basis points and a commitment fee of 8½ points.

There is also a $750m seven-year revolving credit for Investor, the main holding company for Sweden's Wallenberg family. The margin on the facility, which refinances an existing $850m loan, ranges from 11½ basis points to 12½ points and there is also a facility fee, of 6 to 7½ basis points.

The loan, arranged by Enskilda – also part of the Wallenberg empire – will be syndicated among investor's core relationship banks.

The French electrical group SEB, which owns the Tefal and Rowenta brands, is raising FFr2.5bn via SocGen, Sumitomo and J.P. Morgan. The fully-drawn cost of the seven-year loan is 28 basis points.

Credit Suisse has started to syndicate a $50m five-year loan for MOL, the Hungarian oil and gas company. The loan has a three-year grace period and is available for one year. It carries a margin of 100 basis points over Libor and a commitment fee of 25 basis points if it is not drawn.

Royal Bank of Scotland and UBS have sub-underwritten the £1.5bn facility for Scottish Power, which is bidding for Southern Water, with 10 banks. The core pricing on the five-year loan is 20 basis points over Libor but since pricing is linked to gearing, Scottish Power will start by paying a margin of 27½ basis points.

Bankers say Scottish Power's gearing is set to rise to about 120 per cent if it wins the battle for Southern Water, should fall to 110 per cent by March 1997.

Of the £1.5bn facility, £500m is repayable after three years, since Scottish Power's existing £800m loan matures in the fourth year of the new facility. The balance is repayable at the end of the fifth year.

Resounding success for Italy's global FRNs

By Conner Middelmann

Italy's $2bn issue of global floating-rate notes yesterday was a resounding success, benefiting from the dearth of liquid sovereign FRNs and defensive investors' desire to avoid fixed-rate paper.

INTERNATIONAL BONDS

"There hasn't been a sovereign FRN for at least 18 months, or a global floater since Italy's three-currency deal in 1994, and a lot of accounts were keen to get their hands on liquid, sovereign paper," said a syndicate official. The paper was placed in roughly equal portions in the US, the UK, and Asia and the rest of Europe. The paper yielded 1 basis point over Libor at the re-offer price, where it continued trading after the syndicate broke.

Such was the demand that dealers talked of a possible increase, but joint leads Lehman Brothers and Merrill Lynch said that since the deal was to refinance a previous $2bn FRN, it would not be increased.

Another global dollar bond came for the US Federal National Mortgage Association (Fannie Mae), which issued $750m of three-year bonds, setting a new benchmark in that maturity.

While some said the pricing looked tight at 8 basis points over Treasuries, joint leads Goldman Sachs and Salomon Brothers reported strong demand from institutional accounts, with around 90 per cent of the paper placed outside the US.

"On an absolute basis it might look tight, but compared with other issues in that part of the curve, it's good value," said a syndicate manager at one of the leads.

Several smaller dollar deals also emerged yesterday: Germany's Depfa Bank issued $200m of four-year bonds, for which lead manager Daiwa Europe reported good demand from Benelux accounts, while Electricité de France issued $200m of 2½-year notes through BNP and CS First Boston.

According to BNP, the offering was well received despite being tightly priced. With a yield flat to the two-year US Treasury notes maturing December 1998, it was in fact priced at a yield discount to the curve. However, the 6⅜ per cent coupon – the highest level among recent triple A issues – made the paper particularly attractive to retail investors, BNP said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Republic of Italy(a)‡	2bn	(a1)	99.682R	Jun 2001	0.15R	-	Lehman Bros/Merrill Lynch
Federal Natl Mortage Assoc	750	6.60#	99.973R	Jun 1999	0.15R	+8(6⅝%-99)	Goldman/Salomon Brothers
DePfa Bank	200	7.00	100.00R	Jul 2000	0.225R	+20()	Daiwa Europe
Electricité de France(s)	200	6.375	99.772R	Dec 1998	0.15R	flat(6⅜%-98)	BNP/CS First Boston
Morgan Stanley do Brasil(b)	75	(b1)#	(b1)R	Jun 2004	1.00R	(b1)(6⅝%-98)	Morgan Stanley & Co Intl
SWISS FRANCS							
Asfinag	150	4.25	103.20	Jul 2001	2.00	-	SBC Warburg
STERLING							
Bankers Trust New York Corp‡	200	(c)	99.835R	Jun 2001	0.175R	-	PaineWebber Intl(UK)
ITALIAN LIRE							
Cariplo, London Branch(d)	250bn	zero	40.44	Jul 2006	1.00	-	Cariplo
CANADIAN DOLLARS							
General Mtrs Acceptance Crp(j)	100	7.50	99.65R	Jul 2001	0.30R	+31(7½%-01)	CIBC Wood Gundy
AUSTRALIAN DOLLARS							
Crédit Local de France	100	6.75	101.35	Jul 2001	2.00	-	Hambros Bank
ESCUDOS							
Polo Securities(e)‡	31bn	(e1)	100.00	Jun 2002	0.275	-	Banco Efisa/Bankers Trust
NEW ZEALAND DOLLARS							
European Investment Bank	100	9.00	100.865	Jul 1999	1.50	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Callable from June 1999 at par. a1) 3-mth Libor -⅛%. b) Callable and puttable annually from 28/6/99. b1) Priced later at 335-350bp over Treasuries. c) 3-mth Libor +6¼bp. d) L500bn launched 30/5/96 was increased to L750bn. Callable on 3/7/01 at 82.02%. e) Fungible with Esc20bn. Average life: 5.75 yrs. e1) 6-mth Lisbor +12½bp. j) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.5120	-0.200	9.00	8.92	8.79
Austria		6.125	02/06	97.0400	-0.420	6.54	6.43	6.44
Belgium		7.000	05/06	101.9800	+0.130	6.72	6.71	6.62
Canada *		7.000	12/06	94.3500	-0.070	7.80	7.83	7.84
Denmark		8.000	03/06	103.4400	+0.060	7.48	7.45	7.37
France	BTAN	5.750	03/01	100.7500	-	5.57	5.51	5.55
	OAT	7.250	04/06	105.2600	+0.110	6.51	6.49	6.43
Germany Bund		6.250	04/06	97.8300	+0.120	6.54	6.48	6.47
Ireland		8.000	08/06	101.4200	+0.170	7.78	7.69	7.71
Italy		9.500	02/06	100.3200	-0.270	9.45†	9.36	9.55
Japan	No 140	6.600	06/01	119.5967	+0.390	2.25	2.29	2.52
	No 182	3.000	09/05	98.3259	+0.110	3.24	3.15	3.42
Netherlands		6.000	01/06	97.1800	+0.160	6.40	6.36	6.37
Portugal		11.875	02/05	117.1500	+0.130	8.93	8.96	8.92
Spain		8.800	04/06	97.9200	+0.640	9.11	9.15	9.14
Sweden		8.000	02/05	84.6905	-0.690	8.57	8.41	8.37
UK Gilts		8.000	12/00	102-23	+5/32	7.27	7.38	7.46
		7.500	12/06	96-08	+8/32	8.03	8.04	8.16
		8.000	10/08	106-16	+17/32	8.14	8.14	8.28
US Treasury *		6.875	05/06	99-11	-1/32	6.97	6.83	6.76
		6.000	02/26	86-14	-4/32	7.10	6.98	6.99
ECU (French Govt)		7.500	04/05	103.3400	-0.030	6.98	6.96	6.91

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

		One month	-	Two year	6.38
Prime rate	8¼	Two month	-	Three year	6.58
Broker loan rate	7	Three month	5.28	Five year	6.76
Fed.funds	5⅛	Six month	5.53	10-year	6.97
Fed.funds at intervention	-	One year	5.84	30-year	7.11

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	122.94	123.16	+0.10	123.18	122.80	133,157	122,108
Sep	121.38	121.58	+0.06	121.82	121.26	55,884	61,057
Dec	120.10	120.34	+0.10	120.30	120.02	769	12,539

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
120	-	-	-	0.06	0.30	0.57
121	0.81	1.12	-	0.24	0.55	0.85
122	0.25	0.56	0.89	0.70	-	1.31
123	0.04	0.22	0.46	1.48	-	-
124	0.02	0.06	0.21	-	-	-

Est. vol. total, Calls 10,807 Puts 15,243. Previous day's open int., Calls 95,893 Puts 113,044

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.11	95.41	+0.18	95.46	94.97	166530	180885
Dec	94.12	94.52	+0.18	94.50	94.12	164	1176

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9500	0.58	0.92	1.13	1.11	0.17	0.51	0.72	1.59
9550	0.27	0.64	0.85	0.89	0.36	0.73	0.94	1.87
9600	0.09	0.42	0.61	0.71	0.68	1.01	1.20	2.19

Est. vol. total, Calls 11240 Puts 29917. Previous day's open int., Calls 128561 Puts 148128

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	115.10	115.45	+0.22	115.46	114.44	51720	54110
Dec	-	114.80	+0.22	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
11500	1.75	2.23	1.30	2.43
11550	1.50	2.00	1.55	2.70
11600	1.27	1.79	1.82	2.99

Est. vol. total, Calls 2307 Puts 3120. Previous day's open int., Calls 48339 Puts 37333

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.40	99.28	+0.65	99.29	98.40	58,668	55,855
Sep	97.86	97.99	+0.66	98.67	97.80	6,341	6,711

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-31	106-15	+0-09	106-18	105-30	6335	21409
Sep	104-30	105-11	+0-09	105-15	104-22	57029	112883

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
105	0-43	1-11	1-34	1-53	0-21	0-53	1-12	2-31
106	0-12	0-43	1-02	1-27	0-54	1-21	1-44	3-05
107	0-02	0-22	0-43	1-05	1-44	2-00	2-21	3-47

Est. vol. total, Calls 1226 Puts 1746. Previous day's open int., Calls 18340 Puts 22518

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.72	90.88	-0.02	90.90	90.62	1,510	4,606
Sep	90.30	90.46	-0.02	90.48	90.24	941	4,310

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	106-27	107-07	+0-04	107-08	106-21	14,876	95,715
Sep	106-15	106-21	+0-03	106-24	106-02	241,708	331,155
Dec	105-20	106-05	+0-03	106-09	105-20	218	9,622

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.30	-	-	119.06	118.29	8747	0
Dec	117.34	-	-	118.03	117.33	1004	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Jun 11	Day's change %	Mon Jun 10	Accrued interest	xd adj. ytd		Low coupon yield Jun 11	Jun 10	Yr. ago	Medium coupon yield Jun 11	Jun 10	Yr. ago	High coupon yield Jun 11	Jun 10	Yr. ago
1 Up to 5 years (22)	121.82	0.07	121.74	2.40	4.28	5 yrs	7.41	7.44	7.79	7.45	7.48	7.79	7.55	7.58	7.84
2 5-15 years (19)	144.86	0.18	144.60	1.77	5.64	15 yrs	8.24	8.26	8.04	8.25	8.27	8.05	8.34	8.35	8.16
3 Over 15 years (9)	159.30	0.21	158.97	2.62	5.43	20 yrs	8.33	8.34	8.04	8.32	8.34	8.06	8.39	8.39	8.13
4 Irredeemables (6)	180.25	-0.09	180.42	1.66	8.12	Irred.†	8.38	8.37	8.09						
5 All stocks (56)	140.77	0.14	140.57	2.21	5.13										

Index-linked							Inflation 5% Jun 11	Jun 10	Yr. ago	Inflation 10% Jun 11	Jun 10	Yr. ago
6 Up to 5 years (1)	187.18	0.09	186.98	1.12	4.43	Up to 5 yrs	2.81	2.85	3.29	1.42	1.45	1.81
7 Over 5 years (11)	185.82	0.21	185.42	1.47	1.81	Over 5 yrs	3.85	3.87	3.63	3.66	3.67	3.44
8 All stocks (12)	185.95	0.21	185.56	1.46	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5	Yr ago	High*	Low*
Govt. Secs. (UK)	92.44	92.41	92.29	92.63	92.30	93.79	96.34	91.59
Fixed Interest	111.64	111.81	112.01	112.11	111.92	112.55	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 10	Jun 7	Jun 6	Jun 5	Jun 4
Gilt Edged bargains	74.4	92.5	101.3	72.1	79.2
5-day average	83.8	84.4	82.1	81.7	92.3

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 3pc 1996		0.91	5.78	218⅞	—	218⅞	210⅛
Conversion 10pc 1996		9.83	5.74	101⅝	—	104⅛	101⅝
Treas 13¼pc 1997‡‡		12.69	5.56	104⅜	+⅛	109⅛	104⅜
Exch 10½pc 1997		10.16	5.74	103⅜	—	105⅜	103⅛
Treas Cnv 7pc 1997‡‡		6.92	5.94	101⅛	—	101⅝	99⅞
Treas 8¾pc 1997‡‡		8.50	6.07	103	—	104½	101⅝
Exch 15pc 1997		13.48	6.10	111⅜	—	116⅞	111⅜
Exch 9¾pc 1998		9.28	6.32	105⅛	—	107⅞	104⅛
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Treas 7½pc 2006‡‡		7.79	8.02	96¼	+⅛	101⅜	94⅜
Treas 7¾pc 2006‡‡		7.93	8.07	97⅜	+⅛	103¼	94⅛
Treas 8pc 2002-6‡‡		8.03	8.05	99⅝	+⅛	104⅜	95⅜
Treas 11¾pc 2003-7		9.81	7.85	119⅝	+⅛	125⅛	117⅛
Treas 8½pc 2007 ‡‡		8.27	8.11	102⅞	+⅛	108⅜	99⅞
Treas 13½pc 2004-8		10.25	7.94	131¼	+⅛	138⅜	129⅞
Treas 9pc 2008 ‡‡		8.44	8.13	106⅝	+⅛	112⅜	102⅞
[illegible]							

	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	1.42	2.81	113⅞	+⅛	113⅞	110⅞
2½pc '01	(78.3)	3.16	3.57	179⅛	+⅛	180⅛	173⅞
2½pc '03	(78.8)	3.36	3.75	174⅜	+⅛	176⅛	169⅞
4⅜pc '04‡‡	(135.6)	3.43	3.78	114⅜	+⅛	116⅜	113⅞
2pc '06	(69.5)	3.53	3.80	181⅞	+⅛	185⅜	176⅞
2½pc '09	(78.8)	3.80	3.83	183⅛	+⅛	187⅞	159⅜
2½pc '11	(74.6)	3.64	3.84	169⅜	+⅛	173⅞	165⅞
2½pc '13	(89.2)	3.67	3.85	139⅜	+⅛	143	135⅛
[illegible]							

[illegible]

Other Fixed Interest

[illegible]

★ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for September 1995: 150.6 and for April 1996: 152.6.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 11

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	95⅝	95⅞		7.33
ABN Amro Bank 7¼ 05	1000	98½	98¾		7.62
African Dev Bk 7¾ 23	600	94	94⅜	-⅛	7.92
Alberta Province 7⅜ 98	1000	101⅞	102⅛		6.72
Asian Dev Bank 6¼ 05	750	93¼	93⅜		7.39
Austria 8½ 00	400	104⅞	105¼		6.81
[illegible]					
Sweden 8 97	2500	105½	105½		3.86
United Kingdom 7⅛ 97	5500	104⅛	104½		3.79
Volkswagen Intl Fin 7 03	1000	102½	102⅞		6.54
World Bank 0 15	2000	29⅞	30⅛	+⅛	6.36
World Bank 5⅞ 03	3000	98½	99¼		6.02
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	98⅛	98⅝	+⅛	8.11
British Land 8⅞ 23 £	150	89⅜	89⅞	+⅛	10.27
Denmark 6⅛ 98 £	800	100	100¼		6.73
Depfa Finance 7⅞ 00 £	500	94¼	94½	+⅛	8.16
EIB 8 00 £	1000	100½	100⅝	+⅛	7.80
Glaxo Wellcome 8¾ 05 £	500	101⅜	101¼	+⅛	8.58
Hanson 10⅜ 97 £	500	104½	104⅜		6.74
[illegible]					

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

MARKETS REPORT

US dollar rises on Japanese bond announcement

By Graham Bowley

The yen came under downward pressure on the foreign exchanges yesterday after the Japanese Ministry of Finance announced it was to purchase bonds outright for the first time in three years. Investors interpreted this as a signal that Japanese interest rates are set to remain low.

The Italian lira rose following Monday's announcement that the Italian, French and German governments are to begin talks on the currency's re-entry into the European exchange rate mechanism. The Swedish krona was buoyed by speculation that it too might join the ERM soon.

Sterling stabilised after Monday's fall following comments by Mr Howard Davies, deputy governor of the Bank of England, that the pound's recent rise against the D-Mark was "considerable", but was "within reasonable bounds". Speaking in Washington, he said the UK did not see "a serious misalignment" of exchange rates.

The dollar rose to a 28-month high against the yen after better-than-expected US producer price figures showed inflationary pressures in industry were subdued in May. However, uncertainty about the longer-term future of the dollar, triggered by last week's strong employment figures, continued to dominate market discussion.

The Mexican peso fell on speculation that US interest rates might move higher, thus reversing investment flows from dollar assets into emerging markets.

The dollar finished in London at from DM1.5363, from DM1.536. Against the yen it closed at Y109.4650 from Y109.085.

Sterling's trade weighted index finished higher at 86.0 from 85.8. Against the D-Mark, the pound closed at DM2.3598, from DM2.352, while against the dollar it finished at $1.5353, from $1.5315.

The lira closed at L1,008 against the D-Mark, from L1,010. The Swedish krona finished at Skr4.375, from Skr4.382.

■ The Japanese Ministry of Finance's announcement that its Trust Fund Bureau would be purchasing Japanese bonds for the first time in three years gave the dollar a boost in otherwise quiet trading ahead of a spate of more US data this week.

Traders said market conditions were thin with investors reluctant to take large positions ahead of today's consumer price figures and retail sales and industrial production statistics later in the week.

However, yesterday's subdued producer price data did provide some support for the dollar – although some analysts said a closer inspection of the data beyond the headline figures showed a less favourable picture of inflation.

"It is our view that if the US economy continues to grow at its current rates then pressures will feed through to end inflation and this is going to be source of concern for the dollar," said one currency analyst at a European bank in London.

He said lack of volatility in currency markets at present was encouraging investors to ignore the potential inflationary risks and search instead for higher yield. As a result, the dollar had been supported against the D-Mark and yen.

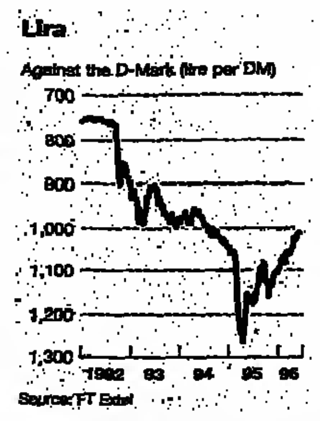
But he said that as inflation emerged in the longer term, investors would become more sceptical about the dollar's attractiveness.

Mr Chris Turner, currency analyst at BZW in London, said he doubted whether any move by the dollar above Y110 would be sustainable since pressure for higher Japanese interest rates would soon begin to emerge again. He said US pressures for a weaker dollar would also limit the currency's rise.

Mr Avinash Persaud, currency strategist at JP Morgan in London, said that recent economic data suggested the German and Japanese economies were now recovering strongly. "We began the year with the perception that US German and Japanese interest rates were going lower, but now we are leaving the year with rates moving higher and that is less helpful for the dollar and for high yielding currencies in general," he said.

■ Mr Persaud said the three conditions for a currency's entry into the ERM – political, economic and currency stability – argued in favour of Italy joining the ERM sooner rather than later.

"At present the lira is stable but if they wait and Germany raises interest rates then that stability may be lost," he said.



■ Pound in New York

Jun 11	—Latest—	— Prev. close —
£ spot	1.5350	1.5345
1 mth	1.5345	1.5339
3 mth	1.5340	1.5336
1 yr	1.5303	1.5327

■ OTHER CURRENCIES

Jun 11	£	$
Czech Kr	42.4230 - 42.8913	27.6040 - 27.9240
Hungary	236.680 - 236.935	150.260 - 150.350
Iran	4605.00 - 4625.00	3000.00 - 3000.00
Kuwait	0.4603 - 0.4616	0.2999 - 0.3001
Poland	4.1563 - 4.1677	2.7090 - 2.7130
Russia	7775.35 - 7788.05	5068.00 - 5071.00
UAE	5.6377 - 5.6419	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6012	+0.0487	914 - 109	16.6110	16.5427	16.5609	2.3	16.4949	2.8	-	-	104.8
Belgium	(BFr)	48.6219	+0.1327	753 - 683	48.5690	48.3550	48.4165	2.6	48.2068	2.6	47.2068	2.7	108.5
Denmark	(DKr)	9.1032	+0.0233	979 - 085	9.1090	9.0761	9.0889	1.9	9.0598	1.9	8.9376	1.8	107.1
Finland	(FM)	7.2097	-0.0028	019 - 174	7.2370	7.2019	7.2053	0.7	7.1972	0.7	-	-	83.5
France	(FFr)	7.9909	+0.0228	874 - 944	7.9970	7.9573	7.978	1.9	7.9531	1.9	7.8405	1.9	108.8
Germany	(DM)	2.3598	+0.0069	578 - 602	2.3603	2.3511	2.3542	2.4	2.3431	2.7	2.2977	2.6	108.1
Greece	(Dr)	372.059	-0.786	800 - 311	372.497	370.718	-	-	-	-	-	-	67.5
Ireland	(I£)	0.9743	+0.0006	734 - 752	0.9763	0.9732	0.9736	0.8	0.9726	0.7	0.9681	0.6	93.3
Italy	(L)	2378.72	+3.08	710 - 034	2385.68	2374.72	2385.27	-3.3	2398.42	-3.0	2429.67	-2.1	78.7
Luxembourg	(LFr)	48.5216	+0.1327	753 - 683	48.5700	48.3550	48.4165	2.6	48.2068	2.6	47.6068	1.5	108.5
Netherlands	(Fl)	2.6413	+0.0062	399 - 427	2.6435	2.6302	2.6348	2.6	2.6214	2.0	2.5648	2.9	105.8
Norway	(NKr)	10.0769	+0.0268	706 - 889	10.0880	10.0845	10.0714	1.0	10.0544	1.0	9.9709	1.1	98.5
Portugal	(Es)	243.285	-0.604	129 - 441	243.491	241.883	243.71	-2.1	244.818	-2.2	-	-	94.4
Spain	(Pta)	196.634	-0.473	513 - 035	196.110	196.526	196.184	-1.6	196.699	-1.6	201.059	-1.1	80.2
Sweden	(SKr)	10.3151	-0.0195	040 - 261	10.4103	10.3013	10.3154	0.0	10.3155	0.0	10.3134	0.0	88.9
Switzerland	(SFr)	1.9447	+0.0045	433 - 461	1.9465	1.9363	1.9307	3.1	1.9289	3.3	1.8807	3.3	110.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.0
Ecu	-	1.2474	+0.0037	468 - 482	1.2484	1.2441	1.2481	1.3	1.2431	1.4	1.2298	1.4	-
SDR†	-	1.067700	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5334	+0.0042	327 - 340	1.5379	1.5320	-	-	-	-	-	-	-
Brazil	(R$)	1.5345	+0.0057	336 - 368	1.5378	1.5312	-	-	-	-	-	-	-
Canada	(C$)	2.0955	+0.0072	944 - 965	2.0992	2.0939	2.0948	0.4	2.0911	0.8	2.0831	0.6	84.9
Mexico	(New Peso)	11.7312	+0.0436	197 - 427	11.7427	11.6045	-	-	-	-	-	-	-
USA	($)	1.5353	+0.0042	350 - 360	1.5385	1.5326	1.535	0.4	1.5348	0.2	1.5335	0.1	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.9382	+0.0075	369 - 394	1.9396	1.9308	1.9407	-1.6	1.9458	-1.9	1.971	-1.7	94.2
Hong Kong	(HK$)	11.8845	+0.033	799 - 891	11.8972	11.8623	11.8764	0.8	11.8646	0.7	11.845	0.3	-
India	(Rs)	53.5123	+0.228	678 - 388	53.6410	53.5570	-	-	-	-	-	-	-
Israel	(Shk)	5.0271	+0.041	210 - 332	5.0578	4.9869	-	-	-	-	-	-	-
Japan	(Y)	168.084	+1.042	975 - 192	168.480	166.840	167.359	5.2	165.869	5.3	159.454	5.1	134.1
Malaysia	(M$)	3.8357	+0.009	337 - 377	3.8424	3.8297	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2800	+0.0052	785 - 815	2.2886	2.2780	2.2851	-2.6	2.2946	-2.5	2.3284	-2.1	105.3
Philippines	(Peso)	40.2071	+0.1176	403 - 739	40.2848	40.2318	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7589	+0.0157	566 - 911	5.7698	5.7482	-	-	-	-	-	-	-
Singapore	(S$)	2.1635	+0.0054	620 - 650	2.1670	2.1599	-	-	-	-	-	-	-
South Africa	(R)	6.6802	+0.0129	757 - 847	6.7123	6.6721	-	-	-	-	-	-	-
South Korea	(Won)	1216.65	+6.31	603 - 728	1218.80	1211.06	-	-	-	-	-	-	-
Taiwan	(T$)	42.5894	+0.1349	778 - 209	42.6748	42.5022	-	-	-	-	-	-	-
Thailand	(Bt)	38.9526	+0.1219	322 - 729	39.0010	38.8670	-	-	-	-	-	-	-

† Rates for Jun 10. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 11		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8118	+0.0022	087 - 144	10.8160	10.7770	10.7921	2.2	10.7501	2.3	10.5668	2.3	104.7
Belgium	(BFr)	31.6000	-	800 - 200	31.6230	31.5080	31.545	2.1	31.43	2.2	30.89	2.2	108.2
Denmark	(DKr)	5.9285	-0.001	270 - 300	5.9318	5.9138	5.921	1.5	5.904	1.7	5.835	1.6	106.5
Finland	(FM)	4.6953	-0.0148	919 - 986	4.7137	4.6915	4.6768	1.7	4.6768	1.8	4.6313	1.4	82.6
France	(FFr)	5.2041	+0.0006	035 - 047	5.2098	5.1930	5.1972	1.6	5.1829	1.6	5.1151	1.7	108.4
Germany	(DM)	1.5363	+0.0003	359 - 366	1.5388	1.5319	1.5339	2.0	1.529	2.1	1.4968	2.4	107.5
Greece	(Dr)	242.305	-0.15	220 - 390	242.800	241.540	243.95	-8.3	247.33	-8.3	261.305	-7.8	67.1
Ireland	(I£)	1.5760	+0.0024	750 - 770	1.5790	1.5738	1.5768	-0.4	1.5775	-0.4	1.569	0.4	-
Italy	(L)	1549.15	-2.25	880 - 970	1552.73	1548.85	1553.9	-3.7	1562.05	-3.3	1594.8	-2.9	76.1
Luxembourg	(LFr)	31.6000	-	800 - 200	31.6230	31.5080	31.547	2.0	31.4405	2.0	30.95	2.0	108.2
Netherlands	(Fl)	1.7202	-0.0007	198 - 205	1.7210	1.7151	1.7168	2.4	1.7097	2.4	1.678	2.5	106.2
Norway	(NKr)	6.5646	-0.0005	608 - 683	6.5686	6.5512	6.5617	0.5	6.5561	0.5	6.5198	0.7	97.8
Portugal	(Es)	158.440	+0.09	390 - 490	158.485	157.330	158.765	-2.4	159.345	-2.3	161.49	-1.9	94.4
Spain	(Pta)	128.590	-0.045	520 - 660	128.660	128.400	128.8	-2.0	129.23	-2.1	131.77	-1.7	79.9
Sweden	(SKr)	6.7177	-0.0312	127 - 227	6.7783	6.7057	6.7297	-2.0	6.7462	-1.7	6.7862	-1.0	88.9
Switzerland	(SFr)	1.2665	-0.0005	660 - 670	1.2675	1.2619	1.263	3.4	1.2555	3.5	1.222	3.5	109.8
UK	(£)	1.5353	+0.0042	350 - 360	1.5385	1.5326	1.5345	0.4	1.5348	0.2	1.5335	0.1	85.3
Ecu	-	1.2310	-0.0003	306 - 313	1.2335	1.2305	1.2319	-0.7	1.2334	-0.8	1.2423	-0.9	-
SDR†	-	0.69500	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9988	-	985 - 987	0.9990	0.9984	-	-	-	-	-	-	-
Brazil	(R$)	0.9994	-0.0005	992 - 995	0.9995	0.9991	-	-	-	-	-	-	-
Canada	(C$)	1.3647	+0.0030	644 - 649	1.3652	1.3632	1.3645	0.1	1.3648	0.0	1.3678	-0.2	83.9
Mexico	(New Peso)	7.6400	+0.1375	350 - 450	7.6450	7.6230	7.6615	-25.4	7.9865	-19.1	9.75	-27.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2621	+0.0014	616 - 626	1.2627	1.2607	1.2641	-1.9	1.2676	-1.7	1.2863	-1.9	85.5
Hong Kong	(HK$)	7.7398	+0.0003	393 - 403	7.7405	7.7390	7.7405	-0.1	7.7425	-0.1	7.7663	-0.4	-
India	(Rs)	34.8500	+0.05	000 - 500	35.1000	34.6400	35	-5.2	35.305	-5.2	36.775	-5.5	-
Israel	(Shk)	3.2739	+0.0178	710 - 768	3.2781	3.2520	-	-	-	-	-	-	-
Japan	(Y)	109.465	+0.38	430 - 500	109.510	108.860	109.02	4.9	108.12	4.9	104.39	4.6	135.0
Malaysia	(M$)	2.4980	-0.001	975 - 985	2.4990	2.4965	2.4998	-0.4	2.505	-1.1	2.5285	-1.2	-
New Zealand	(NZ$)	1.4848	-0.0008	843 - 854	1.4875	1.4843	1.4879	-2.5	1.4937	-2.4	1.5183	-2.3	-
Philippines	(Peso)	26.1850	+0.005	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	502 - 507	3.7510	3.7500	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4090	-0.0003	085 - 095	1.4096	1.4084	1.4055	3.0	1.3995	2.7	1.374	2.5	-
South Africa	(R)	4.3505	-0.0035	490 - 520	4.3700	4.3450	4.388	-13.1	4.488	-12.6	4.8255	-10.9	-
South Korea	(Won)	792.350	+1.95	200 - 500	792.600	789.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.7430	+0.012	380 - 480	27.7500	27.7100	27.748	-0.2	27.753	-0.1	-	-	-
Thailand	(Bt)	25.3680	+0.01	630 - 730	25.3750	25.3510	25.4687	-4.7	25.8705	-4.8	26.583	-4.7	-

† SDR rate per $ for Jun 10. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 10: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3¼	3¼	3⅜	3¼	7.00	2.50	-
week ago	3¼	3¼	3¼	3⅜	3½	7.00	2.50	-
France	3⅔	3⅜	3⅜	4	4⅛	3.60	-	5.60
week ago	3⅜	3⅞	3⅞	4	4⅛	3.70	-	5.60
Germany	3½	3⅜	3¼	3⅛	3½	4.50	2.50	3.30
week ago	3¾	3⅜	3⅛	3⅜	3⅞	4.50	2.50	3.30
Ireland	5⅜	5⅜	5¼	5⅛	5⅜	-	-	6.25
week ago	5⅛	5⅛	5¼	5¼	4½	-	-	6.25
Italy	9⅛	9⅛	8⅞	8⅜	8⅛	-	9.00	9.35
week ago	9⅜	9⅛	8⅞	8⅝	8⅝	-	9.00	9.35
Netherlands	2¾	2¾	2⅞	2⅛	3⅛	-	3.00	3.30
week ago	2¾	2¾	2⅞	2⅞	2¾	-	3.00	3.30
Switzerland	2⅛	2⅜	2⅛	2½	2⅞	5.00	1.50	-
week ago	2¾	2⅞	2⅞	2⅛	2⅛	5.00	1.50	-
US	5¼	5⅛	5⅜	5¾	6⅛	-	5.00	-
week ago	5¾	5⅛	5⅞	5⅞	5⅞	-	5.00	-
Japan	⅜	½	⅝	⅝	1	-	0.50	-
week ago	⅜	½	⅝	½	⅞	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	5⅞	6⅛	-	-	-
week ago	-	5⅝	5⅛	5⅛	6⅛	-	-	-
US Dollar CDs	-	4.96	5.17	5.42	5.87	-	-	-
week ago	-	4.98	5.11	5.33	5.75	-	-	-
ECU Linked Ds	-	4⅛	4⅜	4⅜	4⅛	-	-	-
week ago	-	4⅛	4⅛	4⅛	4⅞	-	-	-
SDR Linked Ds	-	3⅜	3¼	3⅜	3⅞	-	-	-
week ago	-	3⅜	3⅜	3⅞	3⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 11	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜
Danish Krone	4⅛ - 3⅞	3⅞ - 3⅞	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞	4⅛ - 4⅛
D-Mark	3⅛ - 3⅜	3⅛ - 3⅜	3⅛ - 3⅜	3⅛ - 3⅜	3⅛ - 3⅜	3⅜ - 3⅜
Dutch Guilder	2⅞ - 2⅛	2⅞ - 2⅛	2⅞ - 2¾	2⅞ - 2⅞	2⅞ - 2⅞	3⅛ - 3⅛
French Franc	3⅞ - 3⅞	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3⅞	4⅛ - 3⅞	4⅛ - 4⅛
Portuguese Esc.	7½ - 7⅜	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Spanish Peseta	7⅞ - 7⅜	7⅞ - 7⅛	7⅞ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛
Sterling	5⅞ - 5⅞	5⅞ - 5⅛	5⅞ - 5⅛	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛
Swiss Franc	2⅞ - 2⅛	2½ - 2⅜	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛	2¾ - 2⅝
Can. Dollar	4⅞ - 4½	4¾ - 4⅜	4¾ - 4⅝	4⅞ - 4¾	5 - 4⅞	5⅛ - 5⅞
US Dollar	5⅞ - 5⅛	5⅛ - 5⅛	5⅛ - 5¼	5⅛ - 5⅜	5¾ - 5⅞	6⅛ - 5⅞
Italian Lira	9⅛ - 9⅛	9⅞ - 9⅛	9⅛ - 9	9⅞ - 8⅞	8⅝ - 8½	8⅛ - 8⅞
Yen	½ - ⅛	⅛ - ⅞	⅞ - ⅞	½ - ⅞	⅝ - ⅞	1 - ⅞
Asian $Sing	2⅞ - 2¼	2⅞ - 2¼	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.02	96.03	-	96.04	96.00	11,487	45,121
Sep	95.89	95.90	-0.01	95.90	95.85	23,767	54,756
Dec	95.76	95.76	-0.01	95.77	95.71	7,441	30,702

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.65	96.64	-0.01	96.65	96.63	14917	160797
Sep	96.67	96.68	-0.01	96.68	96.64	40849	221919
Dec	96.47	96.48	-	96.48	96.43	42237	203595
Mar	96.18	96.19	-0.02	96.19	96.14	33424	175295

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.23	91.27	+0.03	91.27	91.19	7139	38267
Sep	91.81	91.89	+0.05	91.90	91.79	14969	45497
Dec	92.10	92.17	+0.03	92.20	92.08	5569	28044
Mar	92.19	92.24	+0.04	92.24	92.15	2092	12319

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.48	97.47	-0.02	97.49	97.45	2704	19598
Sep	97.45	97.41	-0.05	97.45	97.39	7266	38268
Dec	97.22	97.21	-0.06	97.24	97.18	1272	14970
Mar	96.94	96.90	-0.06	96.94	96.88	266	6799

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.41	99.41	+0.02	99.41	99.41	280	n/a
Sep	99.17	99.16	+0.05	99.19	99.19	985	n/a
Dec	98.85	98.85	+0.09	98.86	98.83	2960	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.56	95.58	-	95.59	95.56	632	7820
Sep	95.58	95.61	+0.01	95.60	95.58	1176	5117
Dec	95.47	95.50	-	95.50	95.46	292	3772
Mar	95.25	95.28	-	95.28	95.25	229	2508

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.76	16.47	4.862	2.007	4903	5.443	20.77	501.4	409.9	21.27	4.009	2.061	4.320	3.166	346.5	2.570
Denmark	(DKr)	53.30	10	8.778	2.591	1.070	2613	2.901	11.07	267.3	216.5	11.34	2.137	1.099	2.303	1.687	184.7	1.370
France	(FFr)	60.72	11.39	10	2.952	1.219	2977	3.305	12.61	304.5	248.8	12.91	2.434	1.251	2.623	1.922	210.4	1.561
Germany	(DM)	20.57	3.859	3.387	1	0.413	1008	1.120	4.273	103.1	84.32	4.375	0.825	0.424	0.889	0.651	71.26	0.529
Ireland	(I£)	49.82	9.346	8.204	2.422	1	2443	2.711	10.35	249.8	204.2	10.60	1.997	1.027	2.152	1.577	172.8	1.280
Italy	(L)	2.040	0.383	0.336	0.099	0.041	100.	0.111	0.424	10.23	8.361	0.434	0.082	0.042	0.088	0.065	7.066	0.052
Netherlands	(Fl)	18.37	3.447	3.026	0.893	0.369	900.8	1	3.817	92.12	75.31	3.908	0.736	0.379	0.794	0.582	63.65	0.472
Norway	(NKr)	48.13	9.031	7.928	2.340	0.966	2360	2.620	10	241.4	197.3	10.24	1.930	0.992	2.079	1.524	166.9	1.237
Portugal	(Es)	19.94	3.741	3.284	0.970	0.400	977.8	1.085	4.143	100.	81.75	4.242	0.799	0.411	0.861	0.631	69.09	0.513
Spain	(Pta)	24.39	4.577	4.018	1.186	0.490	1196	1.328	5.068	122.3	100.	5.168	0.978	0.503	1.054	0.772	84.51	0.627
Sweden	(SKr)	47.02	8.821	7.743	2.286	0.944	2305	2.559	9.767	235.8	192.7	10	1.885	0.969	2.031	1.488	162.9	1.209
Switzerland	(SFr)	24.95	4.680	4.108	1.213	0.501	1223	1.358	5.189	125.1	102.3	5.306	1	0.514	1.078	0.790	86.43	0.641
UK	(£)	48.52	9.103	7.991	2.359	0.974	2379	2.641	10.08	243.3	198.9	10.32	1.945	1	2.096	1.536	168.1	1.247
Canada	(C$)	23.15	4.343	3.813	1.125	0.465	1135	1.260	4.809	116.1	94.90	4.924	0.928	0.477	1	0.733	80.20	0.595
US	($)	31.59	5.926	5.202	1.536	0.634	1549	1.719	6.563	158.4	129.5	6.719	1.266	0.651	1.365	1	109.4	0.812
Japan	(Y)	28.86	5.415	4.754	1.403	0.579	1415	1.571	5.996	144.7	118.3	6.139	1.157	0.595	1.247	0.914	100.	0.742
Ecu		38.91	7.300	6.408	1.892	0.781	1908	2.118	8.083	195.1	159.5	8.276	1.560	0.802	1.681	1.232	134.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6520	0.6522	+0.0006	0.6530	0.6512	39,236	52,042
Sep	0.6548	0.6557	+0.0006	0.6565	0.6548	20,378	31,035
Dec	-	-	-	-	-	4	1,645

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9179	0.9150	-0.0029	0.9207	0.9134	42,113	52,940
Sep	0.9288	0.9263	-0.0017	0.9328	0.9256	27,767	40,869
Dec	-	0.9412	+0.0012	-	0.9412	27	3,377

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7893	0.7912	+0.0018	0.7920	0.7893	24,560	26,890
Sep	0.7952	0.7972	+0.0020	0.7984	0.7951	20,802	24,686
Dec	0.8035	0.8035	+0.0017	0.8037	0.8035	69	943

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5350	1.5362	+0.0019	1.5374	1.5336	48,592	51,393
Sep	1.5340	1.5356	+0.0019	1.5368	1.5324	22,092	27,434
Dec	-	-	-	1.5360	-	-	82

UK INTEREST RATES

LONDON MONEY RATES

Jun 11	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 4	5⅞ - 5⅝	5⅞ - 5⅞	5⅞ - 5⅞	9 - 5⅞	6¼ - 6⅞
Sterling CDs	-	-	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 9
Treasury Bills	-	-	5⅞ - 5⅝	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅝	5⅞ - 5⅝	5⅞ - 5⅞	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5¾	6 - 5⅞	6⅛ - 6⅞
Discount Market deps	6 - 5⅝	5⅞ - 5⅞	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Jun 6, 5.5301pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Schemes II & III 1.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.10	94.11	+0.01	94.11	94.10	9141	59603
Sep	94.11	94.17	+0.05	94.19	94.10	21395	78579
Dec	93.87	93.97	+0.08	93.97	93.87	27054	79173
Mar	93.52	93.60	+0.06	93.60	93.51	11443	54177
Jun	93.10	93.18	+0.04	93.18	93.10	5870	38419

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9400	0.11	0.22	0.21	0	0.05	0.24
9425	0	0.07	0.11	0.14	0.15	0.39
9450	0	0.02	0.05	0.39	0.35	0.58

Est. vol. total, Calls 13197 Puts 3628. Previous day's open int., Calls 170185 Puts 132598

EMS EUROPEAN CURRENCY UNIT RATES

Jun 11	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.542	+0.022	-0.59	1.96	4
Netherlands	2.15214	2.14254	+0.00038	-0.45	1.82	3
Ireland	0.792214	0.790536	-0.000709	-0.21	1.58	1
Belgium	39.3960	39.3563	-0.0146	-0.10	1.47	1
Germany	1.91007	1.91323	-0.00086	0.17	1.20	-2
Austria	13.4383	13.4644	-0.0066	0.19	1.17	-1
Portugal	195.792	197.349	-0.113	0.80	0.57	-5
France	6.40608	6.48702	+0.0038	1.26	0.10	-11
Denmark	7.28580	7.38531	-0.00299	1.37	0.00	-9
NON ERM MEMBERS						
Greece	292.867	302.025	-0.195	3.13	-1.71	-
Italy	2106.15	1935.76	+3.14	-8.09	10.29	-
UK	0.786652	0.811779	-0.000356	3.19	-1.77	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.490	4.32	4.34	4.47	-	0.08	0.17
1.500	3.32	3.40	3.62	-	0.15	0.32
1.510	2.38	2.53	2.85	-	0.29	0.55
1.520	0.65	1.81	2.21	0.01	0.47	0.86
1.530	0.17	1.17	1.63	0.22	0.77	1.25

Previous day's vol., Calls 1,480 Puts 2,607. Prev. day's open int., Calls 199,040 Puts 191,710

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.40	94.41	-	94.41	94.39	29,565	330,119
Sep	94.06	94.06	+0.02	94.09	94.03	64,925	384,967
Dec	93.69	93.71	-	93.72	93.66	95,503	421,681

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.86	94.69	-	94.87	94.85	1,333	5,517
Sep	94.55	94.58	+0.04	94.56	94.52	167	5,513
Dec	94.24	94.24	-0.02	94.24	94.24	31	1,422

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9650	0.15	0.19	0.20	0.22	0.01	0.03	0.04	0.06
9675	0.01	0.03	0.05	0.06	0.12	0.12	0.14	0.15
9700	0	0	0.01	0.02	0.36	0.34	0.35	0.36

Est. vol. total, Calls 5597 Puts 7262. Previous day's open int., Calls 365127 Puts 401152

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9750	0.04	0.12	0.12	0.07	0.21	0.41
9775	0.01	0.05	0.05	0.29	0.39	0.59

Est. vol. total, Calls 0 Puts 53. Previous day's open int., Calls 11049 Puts 8871

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9125	0.05	0.75	1.04	0.03	0.11	0.12
9150	0.01	0.54	0.83	0.24	0.15	0.16
9175	0	0.37	0.64	0.48	0.23	0.22

Est. vol. total, Calls 1496 Puts 200. Previous day's open int., Calls 51524 Puts 28796

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	9.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows	5.75
Bank of Baroda	5.75	Girobank	8.00	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	6.00
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	8.00	●Hill Samuel	6.00	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	8.00	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	6.00		
Credit Lyonnais	5.75	* Mount Credit Corp	6.25		
Cyprus Popular Bank	8.00	NatWestminster	6.00		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

CONTRACTS & TENDERS

PERSONAL

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	475½xd	+½	[illegible]	462	4,922	6.2	18.0
[illegible]	[illegible]	577	—	625	442	394.7	2.7	18.1
Burn St Dist	[illegible]	108½	—	148	101	64.3	5.8	23.4
Glenmorangie A	[illegible]	675	+30	660	600	92.5	2.3	17.1
Grand Met	[illegible]	429	-1½	487	374	9,000	4.5	18.0
Guinness	[illegible]	488	+6½	538	435	8,854	4.1	15.0
Highland	[illegible]	373	—	405	315	447.2	2.7	17.4
Kirin Y		780½	+5½	679¾	621	8,218	6.0	31.2
Macallan-Glen	[illegible]	176	—	227	150	[illegible]	1.9	38.1
Matthew Clark	[illegible]	780	-8	903	580	658.7	3.5	—
Merrydown	[illegible]	133	+8	140	75	14.5	1.9	—
Seagram S		[illegible]	-⅛	[illegible]	£19[illegible]	6,229	1.3	—

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barclays 8pc Cnv 2nd Prf		[illegible]	—	[illegible]	50½	6.31	10.8	—
Cater Allen	[illegible]	309	-4	325	309	128.8	9.6	6.4
Close Bros	[illegible]	378	-2	382	271½	455.5	3.0	18.9
Gerrard & Nat	[illegible]	355	—	472	355	180.0	7.8	11.9
Hambros	[illegible]	231	-2	232	180	406.9	4.1	Φ
7½pc Cv Pf		116	-½	117	94½	141.7	8.9	—
King & Shaxson	[illegible]	171	—	176	110	46.1	6.6	13.3
Leopold J	[illegible]	428	—	463	353	22.7	5.5	14.7
Rea Brothers	[illegible]	54	-2	67	44	26.1	2.3	25.6
Schroders	[illegible]	1359	+5	[illegible]	1130	2,063	1.5	18.9
N/V	[illegible]	[illegible]	-2	1185	880	467.7	1.8	14.8
Singer & Fried	[illegible]	118	+4	118	90	221.2	4.5	9.3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		[illegible]	—	[illegible]	[illegible]	[illegible]	2.6	Φ
Barlow		[illegible]	—	[illegible]	[illegible]	[illegible]	2.0	–
Gold Flds Prop R		[illegible]	—	170	130	13.7	6.7	9.9
HK Props		75	—	95	75	3.01	12.8	–
SASOL	♥	[illegible]	—	710	475	[illegible]	1.7	–
SA Brews		[illegible]	—	[illegible]	[illegible]	[illegible]	1.9	Φ
Standard Bank	□	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.8	20.7
Tiger Oats	†	[illegible]	—	1278	805	1,278	2.8	16.6
Tongaat-Hulett		[illegible]	—	1247	892	757.3	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
z Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mangt (Guernsey) Ltd

Schroder Investment Mangmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mangmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

LGT Asset Management Ltd - Contd.

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (u)

Falcon Market Fund Plc

Framlington Investment Mngmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd (u)

Fresh Korea Fund

ISLE OF MAN (SIB RECOGNISED)

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Ultbank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

For ATC Fund Management see Sylvan International

AXA Equity & Law Intl Fund Mgrs

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Fleming Group (u)

Sarasin Investment SICAV (z)

Schroder International Selection Fd

LUXEMBOURG (REGULATED)(**)

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LONDON STOCK EXCHANGE

MARKET REPORT

UK and US economic statistics lift equities

By Steve Thompson, UK Stock Market Editor

Another set of domestic economic numbers appeared yesterday to give credence to the decision by Mr Kenneth Clarke, chancellor of the exchequer, to cut UK interest rates last week. The UK data combined with an unexpected decline in US producer prices to give a boost to the London stock market.

Adding to the much improved market feeling was a report from the British Retail Consortium saying that UK high street sales had risen some 6 per cent in May.

The UK ecooomic oews helped the FT-SE 100 index rally from an early slide, while the US numbers produced the late impetus for London.

The Footsie ended another session featured by a marked absence of any substantial customer business at the day's high, 3,755.7, up 26.9. Second line stocks were again less impressive, underperforming the leaders by a big margin. The FT-SE Mid 250 index closed 9.7 ahead at 4,462.3.

There remained, however, a certain amount of scepticism among leading traders about the UK market's ability to stay on the upward path, in the face of so many important economic numbers.

The data continue to reveal a mixed economy; while UK industrial production showed a 0.8 per cent decline in April, the March figure for manufacturing output was revised up. Meanwhile, the BRC survey showed the strength of the consumer sector.

In the US, the weaker than expected producer price news saw Treasury bonds make progress, helping to dispel some of the gloomy predictions for US interest rates promoted by last week's worrying non-farm payroll report. Gilts were dragged higher by the performance of Treasuries, ending the day around a quarter of a point better and boosting sentiment in equities.

US producer prices dipped 0.1 per cent in May, compared with expectations of a 0.2 per cent rise.

Wall Street's Monday night performance, which saw the Dow Jones Industrial Average rally from an earlier fall of more than 30 points to close only 9 points off, gave a measure of early support to London.

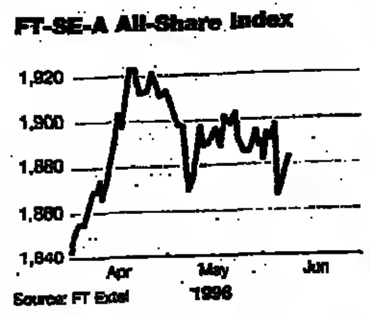
But pockets of profit-taking saw the Footsie down 8.5 points at its worst, shortly before the UK output data were made public.

Thereafter the index began to stabilise and make good progress, eventually gathering good momentum on Wall Street's afternoon surge, which saw the Dow Average ahead in excess of 40 points just as London closed for the day.

Summing up the day, senior marketmakers said the big institutions were scared of selling the market in case of a burst of takeover activity. One said that the onset of summer, which sees a reduction in business and brings low attendances around the trading desks, would continue to cap the market, which "continues to look range-bound, with 3,790 a big hurdle". He also mentioned the rights issue worries which have burdened the market for some weeks.

Turnover at the 6pm count was a paltry 553.7m shares, and non-Footsie stocks accounted for 58 per cent of that figure. Customer business on Monday was a lowly £1.3bn.

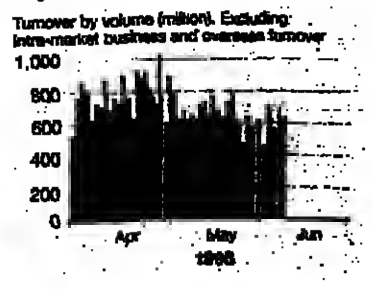
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3755.7	+26.9
FT-SE Mid 250	4462.3	+9.7
FT-SE-A 350	1898.8	+11.5
FT-SE-A All-Share	1885.10	+10.23
FT-SE-A All-Share yield	3.81	3.84
FT Ordinary index	2779.4	+13.0
FT-SE-A Non Fins p/e	16.81	16.76
FT-SE100 Fut Jun	3755.0	+30.0
10 yr Gilt yield	8.02	8.06
Long gilt/equity yld ratio:	2.20	2.18

Best performing sectors

1 Transport .... +1.4
2 Retailers: Food .... +1.3
3 Gas Distribution .... +1.3
4 Oil : Integrated .... +1.3
5 Pharmaceuticals .... +1.2

Worst performing sectors

1 Engineering: Vehicles .... -0.7
2 Electronic & Elec .... -0.5
3 Other Financial .... -0.4
4 Electricity .... -0.3
5 Chemicals .... -0.2

Photo finish for Footsie

Courtaulds, the chemicals group, appears to have been saved from falling out of the Footsie by a Finnish rival.

At the start of trading yesterday, the UK group was ranked 112th by capitalisation and fighting a losing battle for relegation against Lasmo and Rexam.

However, Kemira, of Finland, produced figures which included a slump in pigment sales because of price erosion. Courtaulds, on the other hand, is a big buyer of the titanium dioxide pigment, which it uses as a base in its paint production and therefor benefits from lower prices.

Courtaulds also released its report and accounts yesterday. The shares moved forward 9½ to 429p, while Rexam, which had been 109th in the rankings, slipped 4 to 341p and Lasmo, which had been 111th, gained only 2½ to 179½p.

Changes to the blue chip index will not be announced until after the close of trading today, but the calculations will be based on yesterday's close. It appeared that Lasmo and Rexam would drop out, along with Foreign & Colonial, the investment trust, and Greenalls, the pubs and hotels group. F&C hardened to 155p, while Greenalls was steady at 573p.

They are expected to be replaced by United News & Media, which eased a penny to 697p; Lucas, off 4 at 233p; Orange, up 2 at 246½p; and Next, ahead 8 at 557p.

Meanwhile, ICI, which manufactures titanium dioxide, fell 10½ to 838p.

Glaxo tipped

Encouragement for Glaxo Wellcome in both the US and UK helped the shares move up 14½ to 837p, on turnover of 6.9m. The stock was also one of the most actively traded in the US yesterday.

Mr James Cochrane, Glaxo's commercial director, gave a well received presentation late on Monday at a Californian healthcare conference organised by Goldman Sachs. During his talk to investors in Napa Valley, Mr Cochrane outlined the prospects for new products over the next few years.

And in the UK, Morgan Stanley has been talking enthusiastically about Glaxo's revenue potential. Yesterday, the broker also issued a report on the future for diabetic treatments and argued that Glaxo's oral diabetic product Troglitazone, due to be launched next year, will achieve sales of £350m after four years.

BA climbs

Confirmation of a marketing deal with American Airlines allowed British Airways to build on recent strong gains and the shares shot ahead in the best volume since last October.

The two airlines expect to have the code sharing deal in place by next April, and if all goes well on the regulatory front, broker earnings upgrades should start to filter into the market later this year.

In the meantime, BA expects the link to add something like 10 per cent to overall profits in a full 12 months. There was also speculation yesterday that the American Airlines deal could lead eventually to a full-scale merger.

At one stage BA was up 16. It closed 9 higher at 582p in turnover of 14m shares.

A strong six-month recovery boosted freight specialist NFC by 13 per cent. UBS upgraded profits by 10 per cent for this year to £105m, and the stock ended 30 up at 171p.

A relatively optimistic report from the British Retail Consortium lifted high street stocks, including Dixons and Kingfisher.

The BRC said overall like-for-like retail sales were up 6.2 per cent in May compared with the previous year, with sales of electrical and electronic goods achieving "quite good results" in the month.

It said electrical sales were well above the trend of recent months, while the approach of the Euro 96 soccer tournament "ensured good sales and rental of large televisions and video recorders".

Dixons advanced 15 to 526p, an all-time high, while Kingfisher jumped 11 to 620p. Robert Fleming reiterated a buy note on Dixons, which it described as one of a "small number of retail stocks that still represent good value".

The consortium's survey – which is not the official government one – also helped lift Boots 12½ to 607½p, in spite of the announcement that it is to take over the 50 per cent of Do It All, previously owned by W.H. Smith, which rose 3 to 484p on the news.

A number of analysts said they would be clipping forecasts at Boots, which will take an £80m provision to cover asset write-downs.

There was profit-taking in a number of smaller stocks in the stores sector, including Moss Bros, which finished 87 down at 1213p.

Thorn EMI was a firm market after better than expected year-end results for the last time in its present form. The shares settled 5 ahead at 1843p.

Food manufacturer Northern Foods, which reported full-year figures yesterday, appreciated 3 to 184p in trade of 2.3m. Unigate, which reported solid underlying profits on Monday, hardened 2 to 419p following an "add" note from NatWest Securities.

British Steel bounced to the top of the Footsie rankings following broker buy advice ahead of next week's results.

The shares, which have been bumping along at the bottom of their recent trading range, jumped 6½ to 176½p in solid volume, after Credit Lyonnais Laing reiterated its buy stance.

The broker is looking for good news next Monday in the shape of top-of-the-range results and cash balances, and predicts that the management could well have some upbeat news on steel prices up its sleeve.

Construction and aggregates group Tarmac was the worst performer in the FT-SE Mid 250 index, in above average volume, following a profits warning at the annual meeting.

The stock ended off 4 at 112p in 4.9m shares traded.

In building materials, Wolseley added 8 at 473p. The group has been touching base with analysts and fund managers in recent days, and is said to be optimistic about US trading.

Second tier brewing and restaurant chains were vibrant, with the announcement that Regent Inns had increased its stake in Surrey Free Inns to 6.33 per cent.

Regent Inns hardeoed a penny to 249p, while Surrey, an AIM stock, leapt 17 to 287p.

Analysts speculated about a takeover. But Regent Inns said the stakeholding was an investment and Surrey Free Inns said that it had had no approaches.

Pizza Express climbed 19 to 404p amid reports of a US institution looking for stock.

Glenmorangie rose 30 to 675p, with reports that a leading investment bank was pushing the shares, fuelling takeover speculation.

Tradepoint, the alternative trading system quoted on AIM and the Vancouver stock exchange, tumbled 50 to 135p in the UK. Tradepoint is expected to be delisted in Canada and one big Canadian investor has been bailing out.

MARKET REPORTERS: Peter John, Joel Kibazo, Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5	Yr ago	*High	*Low
Ordinary Share	2779.4	2766.4	2752.2	2759.3	2752.9	2512.3	2885.2	2698.7
Ord. div. yield	4.00	4.01	4.03	3.98	3.99	4.25	4.06	3.76
P/E ratio net	16.15	16.08	16.01	16.23	16.18	15.75	17.25	15.96
P/E ratio nil	15.94	15.87	15.80	16.02	15.96	15.51	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2767.5	2761.4	2763.6	2761.3	2764.2	2766.4	2767.8	2769.9	2774.4	2779.4	2758.4

	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5	Yr ago
SEAQ bargains	29,575	31,086	32,397	33,724	32,585	21,071
Equity turnover (£m)†	-	1302.0	1871.4	1892.1	1755.7	1278.5
Equity bargains†	-	36,453	38,283	39,944	37,969	30,450
Shares traded (mil)†	-	468.2	607.7	706.7	581.3	548.0

†Excluding intra-market business and overseas turnover.

	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5	Yr ago	*High	*Low
FT-SE AIM	1097.50	1101.70	1097.40	1102.00	1101.40	-	1140.40	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	508	Total Highs	106	Total contracts	48,765
Total Falls	667	Total Lows	24	Calls	25,682
Same	1,556			Puts	23,083

June 11 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3723.0	3755.0	+30.0	3760.0	3716.0	12995	41684
Sep	3728.5	3759.0	+29.0	3761.5	3725.0	3160	22042
Dec	-	3784.0	+29.0	-	-	0	605

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	4460.0	+10.0	-	-	0	668
Sep	-	4496.0	+10.0	-	-	0	3423

FT-SE 100 INDEX OPTION (LIFFE) (*3752) £10 per full index point

[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 11,303 Puts 6,602 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 10	% chg on day	Jun 7	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2171.51	-0.3	2178.08	1895.81	1.42	-	2520.73	1722.93
Regional Indices								
Africa (13)	2924.20	-0.8	2947.97	2467.17	2.48	39.78	3553.86	2272.74
Australasia (6)	2583.35	+0.2	2577.83	2133.22	2.54	29.11	2927.34	2098.51
North America (12)	1900.27	-0.2	1903.22	1703.80	0.71	67.56	2186.39	1486.94

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Market closed 10/6/96: Australia.

FT - SE Actuaries Share Indices — The UK Series

	Jun 11	Day's chge%	Jun 10	Jun 7	Jun 6	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3755.7	+0.7	3728.8	3706.8	3760.3	3348.0	4.04	2.15	14.42	86.46	1536.17
FT-SE Mid 250	4462.3	+0.2	4452.6	4445.8	4480.6	3657.6	3.39	1.77	20.81	91.01	1791.62
FT-SE Mid 250 ex Inv Trusts	4507.0	+0.2	4497.2	4492.1	4523.0	3668.3	3.49	1.82	19.68	95.27	1812.27
FT-SE-A 350	1898.8	+0.6	1887.3	1878.1	1902.4	1662.0	3.88	2.07	15.49	42.91	1567.38
FT-SE-A 350 Higher Yield	1826.6	+0.5	1817.6	1805.3	1831.7	1676.3	5.16	1.93	12.56	50.50	1276.54
FT-SE-A 350 Lower Yield	1978.3	+0.7	1964.4	1958.1	1980.4	1645.1	2.74	2.32	16.67	35.03	1370.82
FT-SE SmallCap	2239.41	-0.2	2242.92	2239.44	2244.36	1854.23	2.91	1.77	24.25	31.43	1837.36
FT-SE SmallCap ex Inv Trusts	2241.67	-0.2	2246.94	2243.82	2245.53	1833.16	3.07	1.86	21.94	33.21	1650.80
FT-SE-A ALL-SHARE	1885.10	+0.5	1874.87	1866.16	1888.69	1642.51	3.81	2.06	15.85	41.01	1600.31

FT-SE Actuaries All-Share

	Jun 11	Day's chge%	Jun 10	Jun 7	Jun 6	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3506.68	+1.7	3469.09	3435.91	3465.86	2866.50	3.82	1.63	17.86	79.03	1610.79
12 Extractive Industries(6)	4388.98	+0.5	4367.35	4340.20	4329.25	3792.83	3.68	2.50	13.58	108.18	1281.54
15 Oil, Integrated(3)	3551.87	+1.3	3506.12	3472.88	3509.27	2864.77	4.03	1.72	17.99	81.84	1569.59
16 Oil Exploration & Prod(15)	2475.70	+0.6	2461.07	2433.11	2465.16	2080.20	2.11	1.62	36.58	33.06	1488.95
20 GEN INDUSTRIALS(275)	2080.42	....	2081.35	2075.41	2093.83	1952.55	4.10	1.89	16.08	40.59	1138.92
21 Building & Construction(34)	1203.10	-0.1	1204.01	1202.55	1203.67	676.39	3.42	1.76	20.74	20.76	1009.20
22 Building Matls & Merchs(29)	1913.67	-0.1	1914.91	1014.37	1932.40	1791.15	4.00	1.72	18.12	38.43	969.00
23 Chemicals(25)	2503.24	-0.2	2508.78	2504.85	2522.09	2408.56	3.97	1.95	18.14	55.67	1191.58
24 Diversified Industrials(19)	1665.16	-0.1	1667.22	1651.27	1673.49	1859.77	6.25	1.69	11.80	54.75	938.12
25 Electronic & Elect Equip(37)	2435.21	-0.5	2448.02	2450.50	2471.95	2064.38	3.04	1.67	24.63	15.10	1257.28
26 Engineering(71)	2441.70	+0.4	2432.75	2424.85	2433.32	1973.58	3.15	2.50	15.89	31.08	1460.56
27 Engineering, Vehicles(13)	3045.03	-0.7	3066.16	3066.96	3142.35	2311.26	3.50	1.96	18.24	53.22	1581.14
28 Paper, Pckg & Printing(26)	2633.85	+0.6	2616.02	2617.72	2651.71	2840.83	3.89	1.98	16.22	55.09	1102.58
29 Textiles & Apparel(19)	1408.59	-0.1	1410.14	1409.12	1409.20	1657.73	5.01	1.53	16.25	41.39	869.04
30 CONSUMER GOODS(90)	3532.26	+0.7	3508.64	3461.57	3531.78	3172.27	3.98	1.90	16.56	78.94	1311.06
32 Alcoholic Beverages(6)	2755.74	+0.5	2741.12	2722.64	2777.44	2757.67	4.54	1.62	17.03	71.72	1000.25
33 Food Producers(23)	2465.23	+0.2	2460.04	2449.39	2461.74	2508.94	4.22	1.97	15.06	58.28	1118.96
34 Household Goods(15)	2674.73	-0.2	2678.95	2676.89	2683.17	2632.63	3.71	2.42	13.94	55.76	1026.13
36 Health Care(20)	2093.16	+0.1	2091.98	2092.30	2106.82	1779.42	2.57	1.85	26.27	30.22	1275.82
37 Pharmaceuticals(12)	5057.24	+1.2	4998.31	4969.75	5038.17	4042.04	3.36	1.88	19.82	91.16	1721.07
38 Tobacco(1)	4354.03	+0.1	4349.80	4222.73	4354.03	4173.42	5.84	2.12	10.10	156.16	1093.70
40 SERVICES(253)	2553.82	+0.7	2536.62	2529.72	2550.00	2033.00	2.91	2.02	21.98	46.58	1334.15
41 Distributors(32)	2972.80	....	2973.61	2958.72	2961.17	2591.72	2.87	1.76	24.72	38.94	1097.36
42 Leisure & Hotels(23)	3182.77	-0.1	3185.98	3149.45	3192.16	2331.49	2.78	1.95	23.13	142.15	1714.22
43 Media(46)	4201.81	+0.7	4171.82	4162.51	4202.52	3010.40	2.16	1.89	30.79	49.86	1623.00
44 Retailers, Food(15)	2089.09	+1.3	2062.60	2057.86	2068.91	2041.64	3.83	2.31	14.91	46.47	1340.53
45 Retailers, General(43)	2113.45	+0.7	2099.65	2098.27	2113.72	1657.28	2.98	2.16	16.55	38.01	1214.09
47 Breweries, Pubs & Rest.(24)	3206.51	+0.6	3186.95	3161.16	3200.76	2408.68	3.16	2.15	18.41	49.94	1545.68
48 Support Services(49)	2444.00	+0.2	2438.46	2433.96	2454.21	1917.28	1.90	2.42	27.13	24.45	1554.90
49 Transport(21)	2410.82	+1.4	2378.42	2372.84	2391.40	2234.90	3.68	1.49	22.94	42.47	1007.68
60 UTILITIES(33)	2387.89	+0.4	2378.09	2374.30	2411.00	2424.13	5.50	2.05	11.10	67.31	1021.62
62 Electricity(12)	2580.22	-0.3	2587.12	2606.91	2644.98	2331.23	6.16	2.50	8.11	164.42	1254.92
64 Gas Distribution(2)	1288.71	+1.3	1272.71	1253.51	1283.29	2045.00	9.30	1.36	9.92	66.67	675.94
66 Telecommunications(7)	2048.12	+0.7	2032.12	2012.73	2046.79	2100.22	4.20	1.85	16.08	12.56	931.88
68 Water(12)	2171.06	+0.2	2167.08	2200.79	2217.84	1926.76	8.12	2.34	8.72	42.24	1196.38
69 NON-FINANCIALS(665)	2009.21	+0.5	1998.80	1989.90	2010.96	1769.17	3.82	1.95	16.81	42.64	1530.24
70 FINANCIALS(105)	2893.32	+0.7	2871.94	2865.23	2907.73	2391.33	4.13	2.65	11.43	78.81	1254.79
71 Banks, Retail(9)	3976.68	+1.1	3934.69	3903.03	3977.98	3203.52	3.91	2.89	11.05	110.04	1310.32
72 Banks, Merchant(6)	3659.17	+0.2	3652.00	3636.94	3690.07	3255.50	2.69	2.38	19.50	36.38	1159.16
73 Insurance(23)	1499.16	+0.6	1490.14	1475.74	1510.32	1310.16	5.26	3.34	7.11	47.91	1136.51
74 Life Assurance(6)	3379.25	+0.3	3370.75	3370.05	3478.74	2696.70	4.42	2.24	12.63	100.72	1416.60
77 Other Financial(21)	2660.00	-0.4	2671.99	2685.35	2698.33	2039.56	3.91	1.71	18.65	55.57	1523.36
79 Property(41)	1524.87	+0.1	1522.59	1520.66	1526.75	1444.69	4.15	1.27	23.66	29.84	943.20
80 INVESTMENT TRUSTS(125)	3171.08	+0.2	3165.76	3154.16	3203.92	2798.98	2.22	1.07	52.45	34.15	1109.31
89 FT-SE-A ALL-SHARE(895)	1885.10	+0.5	1874.87	1866.16	1888.69	1642.51	3.81	2.06	15.95	41.01	1600.31
FT-SE-A Fledgling	1275.21	-0.1	1276.42	1275.60	1279.05	1012.40	2.70	2.17	21.25	15.07	1334.21
FT-SE-A Fledgling ex Inv Trusts	1292.15	-0.2	1294.12	1293.39	1295.22	1006.52	2.90	2.35	18.37	16.16	1392.10

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3729.9	3725.0	3727.4	3726.9	3731.2	3731.7	3734.1	3739.8	3752.5	3755.7	3720.3
FT-SE Mid 250	4456.0	4453.8	4457.1	4456.3	4459.7	4458.0	4457.8	4458.1	4461.3	4462.3	4453.0
FT-SE-A 350	1888.1	1886.0	1887.2	1887.1	1889.0	1889.0	1889.9	1892.2	1897.5	1898.8	1884.2

Time of FT-SE 100 Day's high: 4:30 PM Day's low: 8:44 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 2954.2 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1191.3	1191.5	1183.6	1183.1	1182.8	1181.7	1181.0	1180.5	1170.8	1179.6	1180.7	-0.6
Pharmaceutcls	4935.4	4938.7	4932.0	4934.7	4936.8	4944.8	4954.9	4961.2	4985.5	4986.1	4926.8	+59.3
Water	2156.4	2149.5	2151.4	2159.9	2159.2	2156.0	2150.3	2150.6	2156.5	2158.6	2155.2	+3.4
Banks, Retail	3982.1	3987.8	3992.6	3990.9	4002.1	3994.9	3995.7	4001.4	4024.7	4029.7	3984.8	+44.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

 † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

TRADING VOLUME

Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 11 / Sch)

BELGIUM/LUXEMBOURG (Jun 11 / Frs.)

CZECH REP (Jun 11 / Koruna)

DENMARK (Jun 11 / Kr)

FINLAND (Jun 11 / Mka)

FRANCE (Jun 11 / Frs.)

GERMANY (Jun 11 / Dm.)

GREECE (Jun 11 / Drachma)

ITALY (Jun 11 / Lira)

NETHERLANDS (Jun 11 / Fls.)

NORWAY (Jun 11 / Kroner)

POLAND (Jun 11 / Zloty)

PORTUGAL (Jun 11 / Escudo)

SPAIN (Jun 11 / Pts.)

SWEDEN (Jun 11 / Kronor)

SWITZERLAND (Jun 11 / Frs.)

TURKEY (Jun 11 / TK Lira)

PACIFIC

JAPAN (Jun 11 / Yen)

HONG KONG (Jun 11 / H.K.$)

INDONESIA (Jun 11 / Rupiah)

MALAYSIA (Jun 11 / MYR)

NEW ZEALAND (Jun 11 / NZ $)

SINGAPORE (Jun 11 / S$)

AUSTRALIA (Jun 11 / Aust$)

SOUTH KOREA (Jun 11 / Won)

TAIWAN (Jun 11 / TW $)

THAILAND (Jun 11 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jun 11 / Can $) 4 pm close

MONTREAL (Jun 11 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Jun 11 / Rand)

INDICES

	Jun 11	Jun 10	Jun 7	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	(c)	18104.91	18881.85 20/5	15028.81 10/3
Australia					
All Ordinaries(1/1/80)	2221.7	(c)	2220.1	2328.00 26/4	2187.40 11/3
All Mining(1/1/80)	1048.2	(c)	1045.6	1118.40 8/5	1004.70 16/1
Austria					
Credit Aktien(30/12/84)	386.66	389.41	390.90	394.88 31/5	352.78 2/1
Traded Index(2/1/91)	1118.06	1128.10	1136.23	1142.51 28/5	976.27 2/1
Belgium					
BEL20(1/1/91)	1763.95	1763.52	1747.63	1773.28 28/5	1574.90 2/1
Brazil					
Bovespa(29/12/83)	(u)	54572.0	55302.0	57198.00 28/5	43801.00 2/1
Canada					
Metals Minls◆(1975)	(u)	5238.60	5236.65	5624.80 8/5	4607.47 16/1
Composite◆(1975)	(u)	5134.08	5137.30	5230.90 22/5	4738.79 15/1
Portfolio§§(4/1/83)	(u)	2510.80	2511.72	2585.55 27/5	2327.39 12/1
Chile					
IGPA Gen♥(31/12/80)	(u)	5372.30	5368.55	5804.33 8/1	5215.28 8/4
Denmark					
CopenhagenSE(3/1/83)	403.00	403.44	403.43	407.87 28/5	388.40 2/1
Finland					
HEX General(28/12/90)	2021.16	2022.88	2008.48	2079.42 31/5	1851.67 10/1
France					
SBF 250(31/12/90)	1455.44	1451.27	1441.96	1457.58 6/6	1250.18 2/1
CAC 40(31/12/87)	2137.20	2120.84	2101.99	2148.79 30/4	1897.85 11/1
Germany					
FAZ Aktien(31/12/58)	898.75	901.46	902.58	904.93 23/5	818.58 2/1
Commerzbank(1/12/53)	2588.40	2595.10	2598.30	2601.98 23/4	2378.20 2/1
DAX(30/12/87)	2543.35	2568.81	2557.43	2570.78 21/5	2284.86 2/1
Greece					
Athens SE(31/12/80)	931.23	935.04	922.91	1017.86 4/3	901.03 29/4
Hong Kong					
Hang Seng(31/7/64)	10993.55	11143.24	11196.55	11594.99 16/2	10204.87 2/1
India					
BSE Sens.(1978)	3914.28	3889.34†	3866.21	3914.28 11/6	2828.08 25/1
Indonesia					
Jakarta Comp(10/8/82)	608.52	611.56	612.76	630.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2572.82	2562.19†	2555.45	2578.17 6/6	2234.81 2/1
Italy					
Banca Comm Ital(1972)	654.64	661.25	660.94	674.18 20/5	572.21 23/3
MIB General(2/1/96)	1110.0	1121.0	1120.0	1142.00 20/5	978.00 27/3
Japan					
Nikkei 225(16/5/49)	21817.82	21719.15	21751.81	22282.05 24/4	19734.70 13/3
Nikkei 300(1/10/82)	309.85	308.11	308.35	318.08 26/4	284.48 11/3
Topix(4/1/68)	1666.53	1657.82	1659.89	1718.00 26/4	1624.12 13/3
2nd Section(4/1/68)	2178.11	2174.61	2184.95	2243.28 2/5	1992.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1121.92	1128.87	1131.67	1189.54 30/4	983.18 2/1
Mexico					
IPC(Nov 1978)	(u)	3342.33	3262.03	3392.86 22/5	2736.38 8/3
Netherland					
CBS TtlRtnGen(End 83)	652.0	650.7	644.2	652.00 11/6	509.50 2/1
CBS All Shr(End 83)	388.7	386.0	382.1	386.70 11/6	326.70 2/1
New Zealand					
Cap. 40(1/7/86)	2036.38	2031.70	2025.14	2203.06 4/1	2025.14 7/6
Norway					
Oslo SE(Ind)(2/1/83)	1463.52	1459.33	1436.58	1463.62 11/6	1259.68 30/1
Philippines					
Manila Comp(2/1/85)	3249.17	3285.70	3273.11	3286.70 10/6	2578.97 2/1
Portugal					
BVL 30(4/1/93)	1884.60	(c)	1882.85	1896.69 30/5	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	586.17	586.56	587.04	610.37 5/2	553.89 2/1
South Africa					
JSE Gold(28/9/78)	1850.8♥	1896.7	1912.1	2030.49 29/5	1348.40 2/1
JSE Ind.(28/9/78)	8012.5♥	8024.7	7998.4	8739.30 25/1	7723.20 20/5
South Korea					
KoreaCompEx"(4/1/80)	888.66	892.17	907.83	986.84 7/5	838.87 13/3
Spain					
Madrid SE(30/12/85)	370.00	366.26	363.34	370.00 11/6	323.75 11/1
Sweden					
AffarsvardnGen(1/2/37)	2014.1	2017.8	1998.4	2019.00 6/6	1708.88 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1725.66	1726.68	1718.49	1779.54 28/4	1518.39 17/1
SBC General(1/4/87)	1223.30	1224.05	1216.36	1259.89 26/4	1114.47 29/1
Taiwan					
Weighted Pr."(30/6/66)	6125.79	6073.09	6096.54	6182.70 29/4	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1259.75	(c)	1284.34	1415.04 6/2	1247.79 13/3
Turkey					
Istanbul Cmp.(Jan 1986)	37437.2	66445.7	65588.6	72086.80 8/4	37437.20 11/6
WORLD					
MS Capital Intl(1/1/70)	775.1*	773.0	773.1	780.30 22/5	725.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1689.89	1686.82	1679.84	1899.17 28/5	1504.40 11/1
Euro Top-100(26/6/90)	1449.62	1445.03	1434.12	1458.28 26/4	1333.01 11/1
HSBC JC Dragn(31/12/88)	(u)	377.33	378.37	383.16 15/4	344.19 2/1
ING Brngs Emrg(7/1/92)	160.08	160.87	161.19	164.14 14/5	147.35 2/1

US INDICES

Dow Jones	Jun 10	Jun 7	Jun 6	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5687.87	5697.11	5687.10	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.25	101.48	101.77	106.09 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2231.70	2237.41	2253.68	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	12.32 (8/7/32)
Utilities	208.50	209.47	210.24	234.80 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5727.03 (5649.54) Low 5559.89 (5559.89) (Theoretical◆)
Day's High 5703.02 (5697.11) Low 5663.86 (5680.38) (Actual◆)

Standard and Poors	Jun 10	Jun 7	Jun 6	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	672.16	673.31	673.03	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials¥	802.47	803.53	800.99	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	67.04	67.34	68.22	68.56 (5/3)	58.67 (10/1)	68.86 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	360.17	360.61	361.18	368.74 (24/5)	321.41 (10/1)	368.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	598.46	599.31	602.54	614.99 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1230.04	1229.76	1232.54	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

■ RATIOS

	Jun 7	May 31	May 24	Year ago
Dow Jones Ind. Div. Yield	2.16	2.16	2.15	2.50
	June 5	May 29	May 22	Year ago
S & P Ind. Div. yield	1.83	1.88	1.83	2.21
S & P Ind. P/E ratio	22.74	22.38	22.71	18.77

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Hanson	14,988,400	14½	----
K-Mart	8,185,300	12½	+½
Humana	4,789,300	18	-1
Comm Health	4,585,000	51¾	+8⅞
Westinghouse	4,510,000	19¾	+1
Heinz (HJ)	4,426,300	32⅞	-1⅜
EMC	3,880,900	22¾	+¼
Global Marine	3,798,300	15⅞	-⅜
Storage Tech	3,658,100	39½	+4½
Intl Tech	3,460,200	3⅞	+¼

■ TRADING ACTIVITY

● Volume (million)

	Jun 10	Jun 7	Jun 6
New York SE	337.429	448.251	483.130
Amex	21.302	29.511	28.148
NASDAQ	487.844	617.763	689.421
NYSE			
Issues Traded	3,140	3,135	3,145
Rises	1,092	653	1,018
Falls	1,253	1,803	1,382
Unchanged	795	679	745
New Highs	75	26	121
New Lows	35	57	17

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
Jun	2098.0	2124.0	+20.0	2125.0	2092.0	15,533	50,629
Jul	2095.5	2122.5	+20.0	2119.0	2093.5	91	17,475
■ DAX							
Jun	2550.0	2573.0	+17.0	2564.0	2546.0	22,834	-
Sep	2508.5	2592.0	+17.0	2592.5	2585.0	1,295	-
■ OMX							
Jun	1577.50	1580.00	-2.00	1585.00	1574.50	2,953	16,686
Jul	1585.00	1587.00	-3.00	1587.00	1584.75	33	1,426
■ SOFFEX							
Jun	3564.9	3576.0	+7.1	3578.0	3556.0	5,425	24,565
Jul	3568.5	3577.0	-3.0	3577.0	3560.0	1,418	9,545

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	670.85	671.20	-0.10	674.00	670.25	65,922	136,721
Sep	-	677.45	+0.20	-	676.65	8,768	58,833

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	21690.0	21830.0	+130.0	21880.0	21620.0	15,927	217,176
Sep	21740.0	21860.0	+130.0	21940.0	21680.0	18,461	132,544

Open interest figures for previous day.

* Sat Jun 8 Taiwan Weighted Price 6109.22; Korea Comp Ex 903.32. Base values of all indices are 100 except Australia All Ordinary and [illegible] † Correction. * Calculated at 15.30 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. [illegible] (u) Unavailable. [illegible]

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, June 11, 1996

	Stocks Traded	Closing Prices	Change on day
Clarion	17.1m	580	-20
Fuji Hvy Inds	10.4m	531	+5
Ishihara Sangyo	9.0m	421	+6
Kanematsu Corp	8.4m	751	-28
Mitsui Mining	5.3m	653	-7
Matsushita E Ind	4.1m	1880	+10
Akai Electric	3.6m	535	+25
Osaka Gas	3.3m	411	-9
Taiyo Yuden	3.2m	1300	+30
Ibiden	2.9m	1010	+20

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

4 pm close June 11

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	10⅛	AAR	0.48	2.3	23	111	21½	21¼	21¼	+¼
46⅛	36⅜	AMP	1.00	2.4	20	7221	41¾	40⅞	41	
97½	68	AMR			23	5540	36	93¼	93⅜	-⅝
50½	37⅞	ASA	1.00	4.4	27	873	42	41⅛	41⅛	-¾
44¾	38⅛	AbbotL	0.88	2.2	10	7528	43⅝	43	43⅛	-¼
17⅛	13¼	Abitibi Pr x	0.40	3.0	6	1117	13½	13⅜	13½	+⅛
38¼	27	ABM Ind	0.70	1.9	10	30	37⅜	27¼	37⅜	+¼
17⅞	13⅞	Acptncaln			47	125	u17⅞	17⅝	17⅞	+¼
50⅜	32¼	ACE Ltd	0.58	1.3	10	2770	44⅞	44¼	44⅝	+⅛
9⅞	9¼	ACM Gvt In 4	0.96	9.4	8	307	62⅞	6⅝	9⅝	-⅛
7⅞	6⅝	ACM GvOpp e	0.57	8.4		885	6¾	6¾	6¾	+⅛
7¼	6⅛	ACM Gvt Sp x	0.65	10.6		380	6⅛	d6⅛	6¼	+⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.7		345	8½	8⅜	8⅜	
9½	5¾	ACM Mus x	0.96	18.1		121	8⅞	8⅞	8⅞	
30¾	18½	AcmeCkv	0.52	1.7	7	304	20¼	26¾	28¾	
12⅞	6⅛	Acme Elect			31	420	11¼	11	11½	+⅛
32½	27¾	Acordia e	0.96	2.5	18	10	32	21½	21½	-⅝
21⅜	12	Acuson			77	268	17½	18⅞	17⅜	+⅛
19½	18⅛	Adams Expr	1.00	8.6	8	133	19⅜	19¼	19¼	
31¼	16⅛	AdvMic			7	4634	17¼	16⅝	16¾	-½
11¾	8½	Advest Grp	0.16	1.5	7	3	10¾	10⅝	10¾	+¼
26⅛	9⅛	Advo Inc	0.18	0.9	59	439	10¾	10⅝	10¾	
50⅜	41¾	Aegon	1.10	2.8	14	68	48⅜	48	48⅛	-⅛
6¾	3½	Aerfix			4	374	6⅜	6¼	6⅜	+⅛
75¾	66⅜	Aetnal	2.76	3.8	19	7124	73⅛	71⅛	73	+1¾
27	20¼	Aflac	0.48	1.3	12	4298	30⅛	29¾	30	+¼
20⅜	17½	AGL Res	1.06	6.1	13	376	17⅞	317¼	17⅜	-⅛
27⅞	21¼	Ahmnsn	0.88	3.3	7	4698	26⅞	26⅜	26¾	+⅛

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close June 11

NYSE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20⅝	13⅛	SciAtl c	0.06	0.6	46	882	18⅛	18	18	-⅛
21	17	Scotsman	0.10	0.5	12	7	20⅛	20	20	
45¼	38⅛	Scripps	0.52	1.2	26	2202	44¾	44½	44⅞	+¼
18⅞	14½	ScuddrNAsF	0.02	0.1		94	14⅞	14¾	14⅞	+⅛
12⅞	11	ScuddrNEsF	0.16	1.3		505	12⅜	12¼	12¼	
20½	18	SeaCntB	0.70	3.8	2	55	18⅝	18¼	18½	+⅛
18	15	SeaC1.4625	1.46	0.8		8	16¼	[illegible]	15¾	
67¾	44¾	S'gate			19	38551	63⅝	50	50¼	-3¼
38⅞	21¾	Seagrm	0.80	1.7	24	2084	36½	35⅛	35⅛	-⅛
24⅞	17⅞	Seagull En			14	679	22⅞	21¾	22¼	+⅛
38⅛	26	SeaLed Air			28	517	35¼	24⅞	34⅞	-⅛
53⅞	38¼	SearsR x	0.92	1.8	14	8648	u53⅞	51⅛	51⅝	-1⅞
22⅝	19¼	SecCapStl	1.24	5.5	22	274	u22¾	22⅛	22⅝	+⅛
13	11⅞	Seligm Sel	0.84	6.7		132	12¾	12⅝	12⅝	-⅛
23¼	13⅝	Sensormat	0.22	1.2	15	1937	18¼	17¾	18⅛	
41¼	29½	SequaA	0.60	1.5	108	211	u41¼	39	41¼	+1⅞
44⅛	39	SequaB	0.50	1.1	116	11	u44⅛	43⅞	44⅛	+¼
60¼	38⅞	SvcCp	0.48	0.8	31	2821	60⅛	59¼	59¼	-⅞
33⅝	29⅛	SvMstr	1.02	3.0	15	264	u33⅝	33¼	33⅝	+⅛
8	4½	SvnMerch			12	2329	u6	5⅞	6	+⅛
48¼	28½	SGSThm			8	1482	40	38⅞	39¼	-¾
16⅞	10⅝	Shaw Ind	0.30	2.3	40	1295	12⅞	13⅛	13¼	+⅛
12⅞	10⅝	Shelby Wll	0.28	2.4	14	19	11¾	11⅝	11¾	
88	76⅝	ShellTr	3.28	3.7	17	639	u88	86½	87⅞	+⅞
47	39	ShrW	0.70	1.6	19	382	45¼	44¾	44¾	-⅜
13⅞	7⅞	Shoneys			12	893	12½	12	12¼	-¼
33⅝	21	Showboat	0.10	0.3	46	9522	32¼	31¼	21¼	-½
[illegible]										

NASDAQ NATIONAL MARKET

4 pm close June 11

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close June 11

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

AMERICA

Dow moves ahead as rate fears subside

Wall Street

Rising bond prices and easing fears that the Federal Reserve would raise interest rates by next month helped to lift the US equity market in midsession trading yesterday, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 27.71 higher at 5,715.58 and the Standard & Poor's 500 had risen 3.56 to 675.73, while the American Stock Exchange composite lost 0.13 at 599.35. NYSE volume came to 222m shares.

Bond prices gained ground in early trading after the Labor Department said that its producer price index dipped 0.1 per cent in May. The median economic forecast had been for a 0.4 per cent rise.

The absence of producer price inflation led to an easing of fears that the Fed would raise interest rates by next month in order to combat inflationary pressures.

Technology shares rebounded from Monday's losses, helping the Nasdaq composite, which has about a 40 per cent technology issues content, to move up 6.17 to 1,236.21. The Pacific Stock Exchange technology index was 0.3 per cent firmer.

Storage Technology climbed $2¾ or 6 per cent to $41⅞ after IBM announced that it would sell some of the company's disk storage systems under its name. IBM was standing $1¾ dearer at $104.

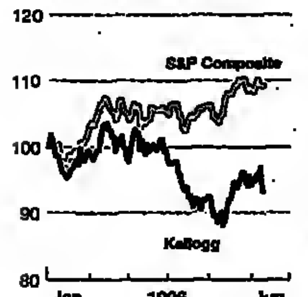
Internet shares were also stronger. The American Stock Exchange/Interactive Week index of Internet shares climbed 0.9 per cent.

Netscape Communications, the Internet software company, added $2⅞ at $67⅞, and Netcom On-Line Communication Services, the Internet service provider, moved forward $1⅞ to $34⅞.

Elsewhere, Kellogg posted a second day of losses in the wake of Monday's announcement that it was cutting prices of some of its cereals, which sparked fears of a price war. In midsession trading its shares were $1⅛ weaker at $70⅝. General Mills declined $1 to $54⅞, while Ralcorp, a maker of private label cereals, was unchanged at $23⅞.

Both AMR, the parent of American Airlines, and American Depositary Receipts of British Airways climbed after the two carriers announced plans to form an alliance. AMR was $⅞ ahead at $94⅞ and ADRs of BA rose $2⅛ to $86¾.

Kellogg
Share price and index rebased



Source: FT Extel

Canada

Toronto edged back in moderate midsession trading, the sharpest declines occurring in the heavily weighted golds sector, down 166.07 to 11,635.63 in response to a sagging bullion price. The TSE 300 composite index was 4.08 weaker by noon at 5,130.00 in turnover of 38m shares.

Among corporate developments, Sceptre Resources moved ahead 35 cents to C$9.50 as it accepted a merger proposal from Canadian Natural Resources, whose own shares added C$1.25 at C$25.25 as a number of analysts raised their share price targets for the merged company.

Cumberland Resources plunged C$2.90 to C$3.50 in heavy turnover after the base metals company released drill results that were interpreted negatively by the market.

Caracas sinks 1.6%

Caracas returned from a long holiday weekend with the market again prey to profit-taking, which left the IBC index 66.56 or 1.6 per cent down at 4,221.31 by midsession. Analysts noted that investors appeared to have overlooked preliminary plans presented to the cabinet by Mr Teodoro Petkoff, the planning minister, on how to restructure the state and reduce public spending.

SANTIAGO was flat after the rally of the previous three sessions, although analysts maintained that the underlying tone remained strong. The weighted IPSA index was 0.07 weaker by midsession at 97.79.

Decliners included the electricity stocks, with Enersis down 0.9 per cent to 232 pesos and Endesa losing 0.8 per cent to 259 pesos.

MEXICO CITY edged lower on worries of higher local interest rates in response to peso weakness and high US rates. The IPC index was standing 1.76 easier by midsession at 3,240.57.

S Africa awaits framework

Johannesburg was weak in tense trade ahead of today's presentation to the cabinet of a macroeconomic framework for growth and development by Mr Trevor Manuel, the finance minister.

Analysts said that any details on the privatisation of state assets and the easing of foreign exchange controls were eagerly awaited by investors, who were unlikely to commit fresh funds until they heard a brief statement, expected after the morning discussions, on whether the meeting had accepted the document.

Industrial shares ended the day softer, shrugging off local and US producer price inflation figures, while gold shares slid almost 2.5 per cent as bullion slipped below the $385 an ounce level.

The overall index declined 48.4 to 6,778, industrials dipped 12.2 to 8,012.5 and golds dropped 45.9 to 1,850.8.

De Beers fell R4 to R133, Anglos receded R3 to R273 and SA Breweries shed R2 to R129.

EUROPE

Cyclicals lively as Frankfurt nears all-time high

Weaker than expected US producer price data made a difference to the European afternoon, lifting US treasuries, the Dow and, eventually, Continental equities. FRANKFURT's Dax index closed a mere 1.58 short of its all-time high at an Ibis-indicated 2,571.10, up 18.14. Turnover, excluding the afternoon Ibis trading, stayed weak at DM6.5bn.

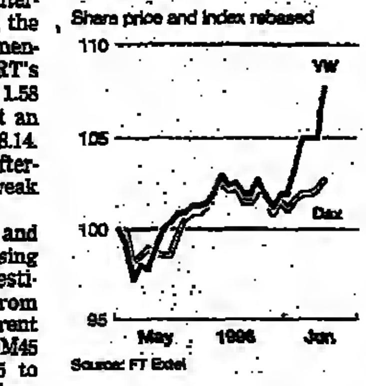
Cyclicals were livelier, and Commerzbank helped, raising its earnings per share estimates for Volkswagen from DM30 to DM35 for the current year, and from DM40 to DM45 for 1997. VW rose DM5.15 to DM570.55, up 8 per cent since the end of April.

Among steels and engineers, Preussag closed DM5.90 higher at DM392.90; and Deutsche Babcock put on DM1.55 at DM95.55 after its Lentjes Kraftwerkstechnik unit won a contract to modernise five power plants in Libya.

In retailing, J.P. Morgan initiated coverage of the Metro group with a buy rating, expecting the merger with Kaufhof and Asko to drive earnings "sharply higher" over the 1996-98 period. Kaufhof rose DM6.45 to DM5.68, and Asko by DM17.50 to a new high of DM1,115.

ZURICH overcame midsession weakness to close little changed, with the day's US data prompting a pick-up in activity during the afternoon. The SMI index finished 0.2 softer at 3,575.6.

Volkswagen
Share price and index rebased



Source: FT Extel

Shares at Interdiscount, the troubled photographic and consumer electronics company, had fallen by almost 60 per cent since the start of March. They plunged another SFr25.50 to SFr7.50, as trade resumed after Monday's suspension, when the company said that it was selling its Swiss activities to the Swiss retailer Coop for an unspecified price. The company added that it would probably be forced to file for receivership unless it could reach agreement with creditors on its other businesses by June 24.

Its subsidiary Porst, which is quoted in Zurich but operates in Germany, Hungary, the Czech Republic and Slovakia, fell SFr30 to SFr100.

Adia gave up SFr7 to SFr316 after downbeat comments on the business outlook by the chief executive of Ecco, the French group with which Adia plans to merge.

Moving in the opposite direction, SMH appreciated another SFr5 to SFr865 in further positive response to last Friday's news conference.

Holderbank climbed SFr22 to SFr984 ahead of a SFr17 a share dividend payment today.

PARIS followed Wall Street, but offered a varying response to news from the financial sector. The CAC-40 index closed 16.66 higher at 2,137.50 in moderate turnover of FFr4bn.

The insurer UAP rose FFr2.20 to FFr103.20 on the sale of a FFr3.2bn property loan portfolio. However, Crédit Lyonnais certificates dropped FFr3.90 to FFr138.80, after FFr136.10; the French state holding company CDR, set up by the government to take over the troubled bank's assets, said that its goal is to reduce its balance sheet by two-thirds by the end of 1998.

Food retailers regained more ground after recent profit-taking. Promodes, which peaked at FFr1,495 on April 30, recovered FFr39, or 3 per cent, to FFr1,363; Carrefour, which extended its run to FFr2,950 on May 24, ended FFr73 better at FFr2,845 for a two-day gain of FFr145.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jun 11 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1684.28	1683.82	1683.42	1683.54	1682.68	1685.07	1686.25	1686.69
FT-SE Eurotrack 200	1723.04	1722.13	1722.60	1723.15	1722.61	1724.29	1726.12	1726.73

	Jun 10	Jun 7	Jun 6	Jun 5	Jun 4
FT-SE Eurotrack 100	1686.82	1679.84	1687.86	1684.32	1681.29
FT-SE Eurotrack 200	1724.40	1719.47	1732.51	1728.60	1727.74

Base value 1000 (26/10/90); High/day: 100 - 1687.28; 200 - 1727.04 Low/day: 100 - 1682.58 200 - 1721.48. 1 Partial.

MADRID ran Telefónica up again, with a gain of Pta55 at Pta2,455 in 5.5m shares dealt; and Repsol joined in, up Pta105 to Pta4,415 in nearly 1.6m as the general index posted yet another historic high, 3.74 better at 370.00.

The market's other mainstay was the electric utilities sector, which saw an advance of 1.1 per cent.

MILAN was uneasy after comments by the finance minister that urgent reform was needed on capital gains and that the goverment would seek to tax returns on instruments such as derivatives.

The Comit index fell 6.61 to 654.64, reflecting the market's uncertainty over the scale of the proposed reforms.

Against the trend, Eni, the energy giant, picked up L47 to L7,366, but among other blue chips, Fiat dropped L77 to L5,127 and Pirelli gave up L36 to L2,635.

AMSTERDAM, which had been weak, closed flat with the AEX index just 0.12 lower at 570.19. Royal Dutch extended its run, rising Fl 2.40 to a new closing high of Fl 264.50; and KLM, after dipping on the alliance between British Airways and American Air, put on 70 cents at Fl 57.90.

VIENNA was undermined in the last half-hour of trade by news that Mr Johannes Ditz, the economics minister, was on the verge of resignation. The ATX closed 11.06 down at a session low of 1,118.06.

The resignation of Mr Ditz was confirmed after hours, and some traders forecast that bearish sentiment would persist today. Meanwhile, the engineering group VA Technologie continued its recent slide on the prospect of legal proceedings against one of its subsidiaries, ending Sch23 down at Sch1,334.

BUDAPEST's Bux index pushed above 3,000 points for the first time on hopes that Mr Boris Yeltsin would remain president of Russia following this weekend's elections, while news that Hungary had received a second investment grade rating this year had less impact.

The Bux index closed 60.77 higher at 3,054.61, surpassing the previous peak of 2,997.08 reached on May 14.

The day's rise was led by OTP Bank, up Ft130 at a new high of Ft1,980, Richter, Ft180 higher at a peak of Ft6,980, and Egris, which picked up Ft110 to Ft7,650, on a positive recommendation for the two drugs makers from ING Barings.

ISTANBUL overcame early weakness to finish 1.5 per cent higher on renewed strong demand for state sector shares. The IMKB index rose 991.56 to 67,437.28 as Kepez Elektrik put on TL6,000 at TL88,000 and the state owned oil refinery Tupras added TL250 at TL15,000.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Changes to index spur activity in Taiwan and Seoul

News that Morgan Stanley Capital International is to add Taiwan, and raise the weighting of Seoul, in its benchmark Emerging Markets Free index from September 2 made for lively, if sometimes uncertain, trade in both centres.

TAIPEI saw sharp early gains partially eroded by profit-taking but the weighted index still closed 52.70 higher at 6,126.79, after a 6,231.98 peak, in active turnover of T$80.7bn.

Analysts noted that early buying had focused on financials, heavily weighted in the main index. The financials sub-index picked up 2.1 per cent.

Brokers said that the Morgan Stanley move was likely to lure more foreign funds into the island, but they cautioned that this would oblige Taipei to ease its foreign investment ceilings.

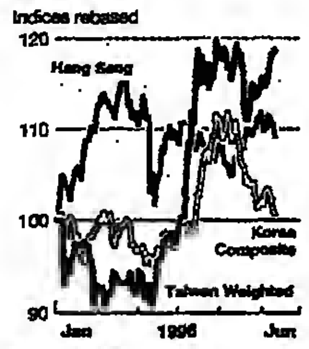
Taiwan's "Big Three" state-run banks were higher. Hua Nan rose T$6.50 to T$140.50, First T$5.50 to T$153 and Chang Hwa T$3.50 to T$153.

SEOUL relinquished early gains on uncertainty over the effect of the Morgan Stanley move, and the composite index turned back from a high of 898.58 to finish a net 3.51 weaker at 888.66.

Profit-taking in some telecom related shares also hurt the market. LG Information fell Won5,000 to Won55,000 on the realisation that it was required by law to reduce its holdings in Dacom after leading a consortium that was awarded a telecommunications licence on Monday.

Dacom finished at its daily high of Won170,000, up Won9,500, while Hyosung, which lost a tender for a licence, closed Won390 limit down at Won6,110.

Asia
Indices rebased



Source: FT Extel

Tokyo

The Nikkei average gained ground for the first time in four trading days after Mr Ryutaro Hashimoto, the prime minister, defended the current low interest rate policy, *writes Emiko Terazono in Tokyo.*

The 225-share index rose 98.47 to 21,817.62 after fluctuating between 21,593.65 and 21,862.84. Share prices turned higher in the morning session as Mr Hashimoto, at a parliamentary committee, called for the need to maintain low interest rates in order to secure economic recovery.

Volume totalled 314m shares, against 263m. Domestic and foreign investors were buyers as the Nikkei approached 22,000, a psychological resistance level. A rise in futures prices also spurred arbitrage activity.

The Topix index of all first section stocks moved up 8.61 to 1,668.53 and the Nikkei 300 by 1.74 to 309.85. Advances led declines by 598 to 387, with 226 issues unchanged.

In London the ISE/Nikkei 50 index put on 0.50 at 1,466.87.

Hopes of a recovery in consumption and a rise in demand for digital video disc players and high-definition television sets lifted some consumer electronics groups. Expectations of an easing of the yen in the near term also helped, as Matsushita Electric Industrial hardened Y10 to Y1,880 and Sony Y30 to Y6,980.

Car companies were also higher, Toyota Motor gaining Y40 to Y2,520 and Nissan Motor Y4 to Y888.

Takashimaya, the Osaka based retailer alleged to have paid off gangsters to ensure smooth shareholders' meetings over the past 10 years, fell Y40 to Y1,630.

Municipal governments, which buy gifts and commemorative items from department stores, indicated that Takashimaya could be banned from participating in their tenders, and investors feared that the revelation could affect corporate demand during the summer gift giving season.

Technical buying supported banks. Sumitomo Bank moved forward Y30 to Y2,080 and Bank of Tokyo-Mitsubishi gained Y30 to Y2,540.

Foreign brokers purchased telecom issues. Nippon Telegraph and Telephone rose Y17,000 to Y795,000 and DDI climbed Y22,000 to Y946,000.

Speculative favourites were down on profit-taking. Clarion, the car accessories maker, was the most active issue of the day, declining Y20 to Y580. Kanematsu, the trading company, surrendered Y28 to Y751. However, Ishihara Sangyo, the chemical maker, appreciated Y8 to Y421.

In Osaka, meanwhile, the OSE average rose 63.74 to 22,931.29, thanks to demand for speculative laggards.

Roundup

Activity related to the MSCI changes spilled over other regional markets on expectations that their weightings would be reduced.

HONG KONG also had more immediate worries about the outlook for interest rates after the sharp increase in key US bond yields, and the Hang Seng index closed 149.69 or 1.3 per cent lower at 10,993.55, but in thin turnover of HK$3.8bn.

Hongkong Telecom, the fourth most heavily weighted issue in the Hang Seng index, receded 45 cents to HK$13.60 after the China-backed Citic Pacific said that it planned to reduce its stake to 5 per cent from 10 per cent. Citic declined 90 cents to HK$30.70.

SINGAPORE saw a late fall on expectations that investors might switch holdings to Taipei or Seoul, and the Straits Times Industrial index lost 24.85 at 2,309.29 in volume of 93m shares.

Elsewhere, speculation that the central bank governor Vijit Supinit might be replaced unsettled BANGKOK, which tumbled 1.9 per cent.

Investors sold banks and finance issues and the SET index shed 24.59 to 1,259.75 in turnover of Bt4.36bn.

Vijit had faced criticism from the opposition and bankers for the Bank of Thailand's belated rescue of the ailing Bangkok Bank of Commerce. But Banharn Silpa-archa, the Thai prime minister, said on Monday that there were no moves to dismiss him.

MANILA tumbled below support at 3,250 after investors took blue chip profits to subscribe to the Empire East Land Holdings initial public offering. The composite index retreated 37.53 to 3,249.17.

Empire East is due to wind up its IPO next Monday. Shares in Hi-Cement, the subject of another recent IPO, are set to be listed on the bourse that same day.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY JUNE 10 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JUNE 7 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	201.65	0.2	195.23	139.05	161.03	169.09	0.0	4.38	201.22	193.60	138.71	160.53	169.09	212.16	162.66	163.90
Austria (25)	194.41	0.3	188.21	134.05	155.25	155.16	0.4	1.81	193.83	186.39	133.61	154.63	154.56	199.28	168.11	195.96
Belgium (27)	210.44	0.7	203.73	145.11	168.05	163.98	0.8	4.06	208.95	200.92	144.03	166.69	162.73	215.61	186.06	191.66
Brazil (28)	163.91	-0.6	158.68	113.02	130.89	301.61	-0.5	2.16	164.86	158.53	113.64	131.52	303.22	171.06	123.97	132.68
Canada (99)	162.66	0.0	157.48	112.16	129.89	160.64	-0.1	2.37	162.61	158.37	112.09	129.72	160.76	165.12	134.14	140.88
Denmark (30)	293.76	-0.1	284.39	202.56	234.58	236.90	0.0	1.80	294.13	282.83	202.75	234.65	237.00	305.17	275.65	281.05
Finland (23)	193.09	0.4	186.94	133.15	154.19	190.67	0.4	2.62	192.28	184.89	132.54	153.38	190.09	276.11	171.73	219.09
France (97)	195.47	0.6	189.24	134.79	156.09	159.55	0.7	3.01	194.32	186.86	133.95	155.02	158.46	198.39	167.70	182.83
Germany (60)	169.07	-0.1	163.68	116.58	135.01	135.01	0.0	1.85	169.19	162.70	116.63	134.98	134.98	174.38	156.66	157.98
Hong Kong (59)	434.87	-0.4	421.01	299.88	347.26	432.10	-0.4	3.30	436.43	419.67	300.84	348.17	433.70	451.19	348.81	382.55
Ireland (16)	282.92	-0.3	273.81	195.09	225.93	253.50	0.1	3.38	283.80	272.90	195.63	226.40	253.13	286.37	229.88	230.95
Italy (59)	81.45	0.2	78.86	56.17	65.04	94.37	0.2	2.33	81.29	78.17	56.04	64.85	94.16	84.53	67.22	74.83
Japan (481)	152.68	-0.1	147.81	105.28	121.92	105.28	-0.1	0.73	152.87	147.00	105.38	121.96	105.38	164.68	137.75	146.87
Malaysia (107)	553.16	-0.5	535.53	381.43	441.73	532.39	-0.4	1.69	555.90	534.56	383.18	443.48	534.70	585.09	425.77	543.16
Mexico (18)	1258.04	-0.2	1217.94	867.47	1004.60	10319.52	-0.6	1.37	1260.63	1212.22	868.97	1005.68	10367.51	1325.85	791.99	923.38
Netherland (19)	298.74	1.0	289.22	205.99	238.56	234.45	1.1	3.07	295.88	284.51	203.95	236.04	231.87	299.69	245.79	250.33
New Zealand (15)	76.83	0.9	74.39	52.98	61.35	60.60	0.4	4.53	76.14	73.22	52.49	60.74	60.35	85.49	75.94	80.40
Norway (35)	254.96	1.7	246.83	175.81	203.60	227.16	1.8	2.00	250.62	241.00	172.76	199.94	223.24	255.75	222.24	223.44
Singapore (44)	422.67	0.2	409.20	291.45	337.52	274.50	0.2	1.37	421.88	405.69	290.82	336.57	273.94	465.21	355.81	395.44
South Africa (45)	361.42	0.3	349.90	249.22	288.61	343.95	0.1	2.11	360.23	346.40	248.31	287.38	343.60	437.78	338.91	341.20
Spain (37)	177.92	0.8	172.25	122.68	142.06	174.68	0.9	3.16	176.47	169.70	121.65	140.78	173.08	179.85	145.15	148.12
Sweden (46)	359.85	1.5	348.36	248.13	287.35	359.52	1.5	2.36	354.47	340.86	244.34	282.78	354.31	360.77	259.66	266.60
Switzerland (38)	231.86	0.6	224.47	159.88	185.15	182.12	0.7	1.63	230.41	221.56	158.82	183.81	180.84	252.34	191.24	199.08
Thailand (46)	175.13	0.0	169.54	120.76	139.85	172.38	0.0	1.91	175.11	168.39	120.71	139.70	172.36	193.95	145.74	171.05
United Kingdom (201)	231.51	-0.1	224.13	159.63	184.87	224.13	0.5	4.15	231.82	222.92	159.80	184.94	222.92	237.43	210.26	216.44
USA (627)	273.87	-0.2	265.14	188.84	218.69	273.87	-0.2	2.16	274.34	263.80	189.10	218.85	274.34	278.47	215.77	215.77
Americas (772)	250.04	-0.2	242.07	172.41	199.67	210.17	-0.2	2.16	250.46	240.84	172.65	199.81	210.54	252.43	197.88	197.88
Europe (715)	208.82	0.3	202.16	143.99	166.75	184.65	0.6	3.05	208.17	200.18	143.50	166.07	183.55	211.35	187.21	189.08
Nordic (136)	305.60	1.1	295.86	210.73	244.04	268.47	1.1	2.29	302.12	290.52	208.26	241.02	265.44	306.61	250.82	255.82
Pacific Basin (831)	165.95	-0.1	160.66	114.43	132.52	116.56	-0.1	1.16	166.16	159.78	114.54	132.56	116.69	177.01	148.86	156.97
Euro-Pacific (1546)	183.71	0.1	177.85	126.67	146.70	142.39	0.2	2.07	183.56	176.51	126.53	146.44	142.02	190.57	166.51	170.24
North America (726)	266.98	-0.2	258.47	184.10	213.20	266.28	-0.2	2.16	267.42	257.10	184.34	213.34	266.72	269.52	211.12	211.12
Europe Ex. UK (514)	191.20	0.6	185.11	131.84	152.68	160.57	0.6	2.47	190.16	182.85	131.08	151.70	159.59	192.67	156.40	170.06
Pacific Ex. Japan (350)	288.72	-0.1	279.52	199.08	230.56	249.14	-0.2	3.06	289.09	277.99	199.28	230.63	249.81	296.66	243.59	253.55
World Ex. US (1739)	185.05	0.1	179.15	127.60	147.77	146.79	0.2	2.07	184.91	177.81	127.46	147.52	146.49	191.55	157.36	170.85
World Ex. UK (2162)	210.69	0.0	203.98	145.28	168.25	179.12	0.0	1.91	210.74	202.66	145.27	168.12	178.14	219.05	180.73	181.32
World Ex. Japan (1882)	245.54	-0.0	237.72	169.31	196.06	233.26	0.1	2.51	245.55	236.12	169.26	195.89	233.07	247.56	205.87	206.87
The World Index (2363)	212.60	0.0	205.63	146.60	169.77	183.38	0.0	2.11	212.67	204.50	146.60	169.66	183.31	214.70	183.69	184.38

CONSTITUENT CHANGES 11/6/96: Name changes: Det Danske Luftfart to SAS Danmark (Denmark) and General Motors 'E' to EDS (USA). Latest prices were unavailable for this edition. Markets closed 10/6/96: Australia and Thailand.

Britain THE ROGUE PIECE IN EUROPE'S JIGSAW

POLITICS Philip Stephens | **FOREIGN POLICY** Edward Mortimer | **INDUSTRY** Sir Geoffrey Owen | **RELATIONS WITH EUROPE** Lionel Barber | **ECONOMY** Sir Samuel Brittan, Martin Wolf

Confrontation with its European partners over beef has exposed once again the nation's deep uncertainties. In this special report, introduced below by **Joe Rogaly**, FT writers look at the strengths and weaknesses of Britain's restless society and its efforts to leave behind its past and to find a comfortable place in Europe and the world

The Thatcher-shock of the 1980s is still reverberating in 1990s Britain. It may ripple through to the next century. It is washing the European social compact oot of the system, gradually Americanising the economy. In spite of memories of the mother of Euro-scepticism, the country's membership of the European Union should be secure, but it is under increasing strain.

John Major's withdrawal of co-operation from the European Union is but the latest manifestation of this tension. The ban on sales of British beef, following the outbreak of mad cow disease, has aroused John Bull's inherent nationalism.

The British prime minister has become the captive of his party's Eurosceptics, yet remains determined to maintain the country's position "at the heart of" the EU. His ambivalence both reflects the public mood and influences it.

The electorate appears to be irritated at aspects of membership of the union. The reasons for this dangerous disenchantment are familiar, and stretch beyond the immediate quarrel over beef. Some sceptics recoil from the Maastricht Treaty, which they regard as the blueprint for a United States of Europe. Fear of a single currency has been exacerbated by tha unhappy experience of ejection from the exchange rate mechanism in 1992.

A coterie of deeply sceptical editors has emerged to head tha ostensibly loyal Conservative press. The irony is inescapable: the owners of soma of the most virulently nationalistic journals are themselves foreign-born.

These are recent eruptions. In a different world, they might subside in time, leaving littla trace. There is, however, an underlying scepticism in the national psyche. Britain is the odd piece in the Europeao jigsaw. It is tha one with the frustrating shape. Turn it about how you may, it does not quite fit.

The United Kingdom, which includes Northern Ireland, is a country apart, an archipelago off the north-western shore of the European continent. In spite of the tunnel linking it with the mainland, it is separated from tha European Union by Atlantic waters. Its dominant people, its Anglo-Saxons, are unique. England's history, culture, world-outlook, sense of national identity, political structure, and habits of thought are famously different.

The UK has not been invaded since the 11th century. Its armies are accustomed to victory. It experienced nothing like the French revolution or the Napoleonic incursions; it has since recoiled from the rationalism of continental intellectuals. For a while, after 1939, it stood alone. The first modern industrial state, the proud former possessor of a global empire, the beneficiary of a universally-ueed language, cannot easily subsume itself into a new pan-European entity.

Britain retains elements of its glorious past. It is a nuclear power, a member of the Security Council of the United Nations, an habitual contributor of its own military personnel to ventures auch as the Gulf war and the UN peacekeeping mission in former Yugoslavia. It is a significant contributor of aid to poor countries, although its generosity is in decline.

It is therefore natural for some members of the British elite to contemplate a global rather than a regional existence in the next century. Along with this continuation of the imperial dream there is an equally understandable predilection to maintain the institutions of the past. Some find it strange that the British remain so attached to the Royal Family, hereditary peers, a centralised state, an unwritten constitution, and the other peculiarities of the island polity.

The pursuit of the ideal of greatness goes a long way towards explaining those curiosities. The impending arrival of a new millennium in which it may no longer be sustainable is disturbing. The British do not want to let go of their past, particularly while the future is so uncertain.

Yet there is a sense of change in tha island air, a promise of renewal after 17 years of Conservative administration. The old country has wonders to perform, it knows not what.

Many anticipate a Labour government. It could be in place within months, a year at most. Few have an inkling of what it proposes to do. Those who hope it might be more fundamentally "European" may be disappointed. Even fewer have given much thought to what the Tories would do if, to everyone's surprise, they were returned for a fifth term.

After nearly two decades of political, social and economic upheaval, with no respite in sight, the country is living on the edge of uncertainty. It would be unrecognisable to a Rip van Winkle who fell asleep in 1979, when the Iron Lady became prime minister. What would be particularly startling would be the altered landscape of the mind.

Capitalism is riding high. The democratic socialism infused after 1945 is a fading memory. Social policies once written off aa fantasiea of the "new right" bave becoma part of the prevailing orthodoxy. This reshaped consensus looks set to last for the rest of the present decade and perhaps more than one decade after that.

Tony Blair, the Labour leader, says his party wonld build on Thatcherism. Its words in opposition have been true to that undertaking. A ministerial salami-slicer steadily trims away at the tbe welfare state; the formerly left-of-centre Labour party underbids it. The gap betweeo rich and poor grows wider; Labour's traditional strategy of using the tax system to redistribute income has been replaced by talk of increasing opportunity. The trade unions are in abeyance; Labour acquiesces. The assumption that the government can solve everything has been abandoned.

As ideology has converged, the trustworthiness of politicians has heen challenged. British public servants are probably less corrupt than their counterparts in some other countries, but the revelation of the private earnings of members of parliament, and secret decisions made over arms sales, has revealed "sleaze" in high places.

The consequence is a deep contempt for politicians and a growing disenchantment with the formal political process. New political parties have sprung up. Miners' leader Arthur Scargill has founded a "Socialist Labour" party. Sir James Goldsmith is promoting a factioo aimed at forcing a refsrendum on Europe. Environmeotalists and the animal rights movement have taken direct action, with dramatic consequences.

Shock therapy such as Britain is experiencing may be unsettling, but it can be beneficial. Industry is leaner and in some ways fitter. The economy is stronger. Inflatioo is under control, more or less, in spite of an anticipated return to a more ropid rate of growth. Macro-economic management has achieved a remarkably harmonious balance, although government borrowing is not yet under control.

The labour market is the most flexible in Europe. Social charges on employers are the lowest. In a country that seemed ungovernable in the 1970s, management manages. Trade union membership peaked at 13.3m in 1979 and has fallen steadily since, to scarcely above 8m today. In consequence, direct investment is pouring in from other countries, more than in any neighbouriog EU country. Foreign-owned companies now account for about 15 per cent of the jobs in the United Kingdom. This share looks set to grow.

British industry has been modernised, partly in consequeoce of the Thatcher reforms, and partly in response to the pressures of world markets. It has become more specialised, more international and carved itself a niche that should suit a medium-sized industrial natioo. Output has not increased, but productivity has.

At the same time the little things of life are changing, mostly for the better. There are more personal computers per head than in any other European country. British Airways functions effectively. British Telecom offers a quality of service that was unimaginable in the days when all telephones were black. More questionably British Rail, one of the few remaining state-owned businesses, is being privatised. All unthinkable two decades ago.

Alas, the price of such rapid advance is a concomitant increase in stress among individuals and families. The polarisation of the upper and lower income groups is more stark than ever. An annual survey of Britain's richest 500 individuals finds 10 billionaires to fill the top notches in the league table. The national lottery is creating new millionaires throughout the year. Some of the wealthy live like Californians minus tha sunshine. In contrast to the 1970s there is no pressure upon them to hide their good fortune.

At the bottom end, the poorest live in some of the most depressing slums in Europe. Government ministers dispute the existence of the truly poor: there are, they indicate, merely periods of life when some people are hard up. The Labour leader speaks less often of the disadvantaged than of the middle classes. These attitudes are symptomatic of the hard-nosed philosophy that characterises the 1990s.

As in other countries, the middle classes, professionals, white-collar workers live in fear of "downsizing", the propensity to trim the fat from companies and government departments alike. In consequeoce, the British people are in tremulous mood, uncertain about job security, frustrated over the value of houses bought in the booming late-1980s, fearful of crime. There is a search for someone to blame.

The obvious scapegoat is the foreigner, expressed as the EU. The Thatcher tidal wave has yet to work itself out.

■ Society • By Andrew Adonis

Through a class system darkly

Statistics reveal a somewhat ambiguous picture of the divisions in British society

To understand modern British society you have to confront England'a extraordinarily resilient and emotive class system. Two recent controversies graphically illustrate this truth; the first to do with the definition of "middle class"; the second concerning the persistence of poverty.

In mid-April Mr John Prescott, a bluntly spoken former trade union shop steward and now deputy leader of tha Labour party, announced on morning radio thot he was middle class. "My roots, my background and the woy I act are working class, but it would be hypocritical to say I'm anything else than middle class now," he declared, denying all claims to still being "a working class warrior".

As a statement of fact, for an MP earning £34,000 a year, this was hardly news. Nor was the sub-text particularly opaque, given the single-minded focus of the main political parties on the swing votes of middle-class Middle England.

The prime minister, Mr John Major, long ago declared his goal to be the creation of a "classless society" by the year 2000. Having elected, in Mr Tony Blair, a public school and Oxbridge educated barrister as its leader, Labour wants to present his shadow cabinet team as a chip off the same block. However, Mr Prescott'a remarks caused a media storm. They became a story in their own right (particularly after the politician's mother said "he's working class at heart and always will be"); and they produced a splurge by commentators on the nature and persistence of class in England. Scotland, it seemed to be agreed, was less class-ridden.

"The class war survives in Britain as bitter skirmish, ludicrous posture and constitutional feud," declared one senior columnist, inevitably introducing the recent marital wrangles within the royal family. A sociology professor opined that class continued to matter in Britain because social mobility was less than in countries such as Australia and the US.

This echoed an outspoken article by the government's chief inspector of schools, shorty before the Prescott furore, arguing that failure among "white working-class boys" was endemic in England's education system and a cause of deep concern.

School league tables, ranking local authorities by exam performance and published since 1992 by ministerial order, show a close correlation between social deprivation and exam performance. In many inner city authorities, only tiny proportions of pupils gain sufficient grades to proceed to higher education.

The poverty controversy was equally revealing. Welfare campaigners picked up on a letter from Mr Peter Lilley, the social security secretary, justifying the government'e refusal to introduce a national poverty eradication plan as agreed by countries, including the UK, at last year's United Nations summit on social development in Copenhagen.

Classless society: Tony Blair, leader of the Labour party, wants to present his shadow cabinet team as free of class considerations

"We already have the infrastructure and social protection eystems to prevent poverty and maintain living standards," Mr Lilley claimed.

This remark caused another storm. It came as the Child Poverty Action Group, a pressure group, published figures claiming that poverty increased sharply in the 1980s, and faster than in the rest of Europe. Britain has no official measure of poverty, but the report took two commonly used yardsticks: the number living on or below the level of income support benefit, and the number on income below half average wages.

By 1992, 24 per cent of the population was on or below the level of income support (then £42.45 for a single person over 25 or £105 for a couple with two children under 11), while in 1979 the proportion had been 14 per cent. By 1993, a quarter of the population was on income less than half the average after allowing for housing costs (then £61 for a single person and £110 for a family), while in 1979 the proportion had been just 9 per cent.

The picture is not entirely straightforward, however. In particular, there is a marked discrepancy in official figures between the income and the expenditure of the lowest income groups: while their income growth has, proportionately, fallen well behind that of the middling and higher groups, analysis of their expenditure shows a different story.

Defining "relative poverty" is also highly problematic. The annual studies of social trends show a dramatic growth in most household accessories. Accesa to a freezer, for instance, grew from 32 per cent of households in 1979 to 82 per cent in 1993; to a telephone from 47 per cent to 74; and to central heating from 43 per cent to 75.

Nonetheless, neither the dramatic growth in extremes of wealth and relativa poverty that has taken place since the early 1980s, nor the problem of endemic unemployment, nor tha figures showing huge increases in single parenthood – now, alongside unemployment, the prime cause of low income – can be denied.

Debatable statistics

All of the abova factors, however, exhibit the continuing relevance of class segmentation in Britain and its limits as an explanatory framework. The rise of single parenthood, for instance, cannot be understood apart from the weakening of marriage as a social institution, which is a cross-class phenomenon. Fears for the fate of marriage are underlined by legislation about to be enacted making "no fault" divorce the norm and generally available within a year of first request.

But again the statistics are debatable. Figures for 1993 showed the marriage rate at its lowest for 50 years while the divorce rate reached its highest level ever, with half as many divorces as marriages. Yet the divorce rate fell in 1994, and set against trends euch as later marriage and childbirth, alarmism may be misplaced.

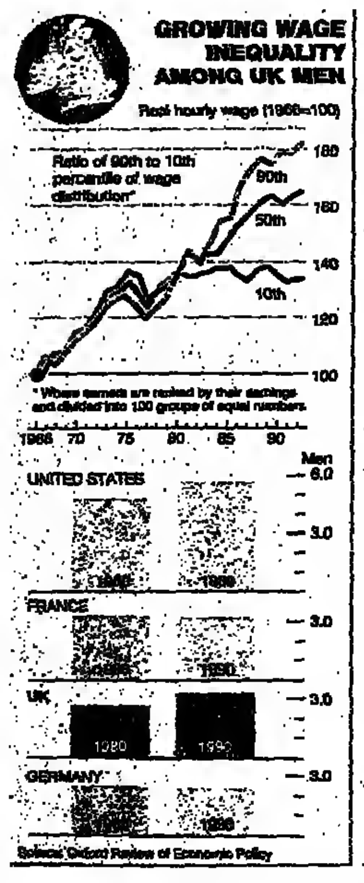
It is tha same story with crime, which, in response to public concern, has become an intensely political issue.

Behind the universal rhetoric about crime "worsening", trends are hard to discern from the available figures. Even measures of recorded crime – which must anyway ba set against the large increase in police numbers since the early 1980s – fail to provide a picture of unrelenting growth. Set against, say, the surge in the US prison population or the serious racial rioting in Germany, British cities appear positively tranquil.

The past year has seen the rise and rise of the National Lottery. Launched in November 1994, it is now commanding the regular allegiance of two-thirds of the adult population and more stIll among the poorer social groups.

Seen together with the three most popular films in Britain in the past year – *Goldeneye*, a James Bond extravaganza, *Trainspotting*, about Edinburgh drugs culture, and *Sense and Sensibility*, Jane Austen's early 19th century subtla class romance – a picture of sorts emerges. Class, escapism, control, and a dash of violent disorder – a fair summary, perhapa, of the contemporary social psyche.

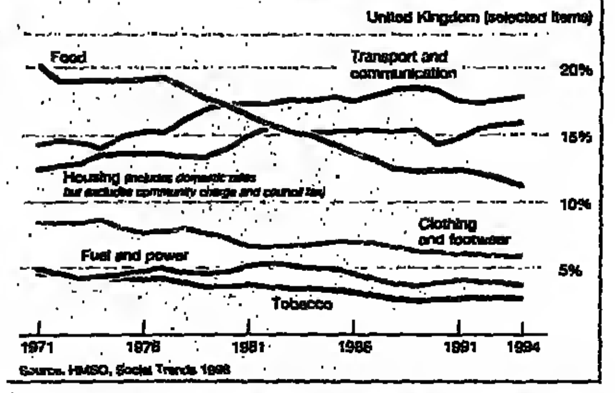
GROWING WAGE INEQUALITY AMONG UK MEN



Source: Oxford Review of Economic Policy

HOUSEHOLD EXPENDITURE

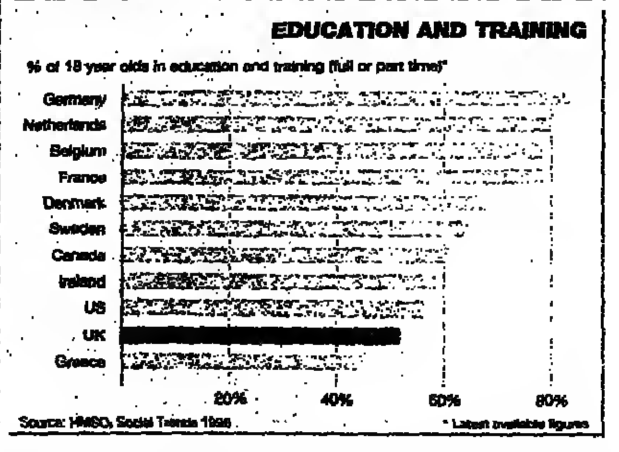
United Kingdom (selected items)



Source: HMSO, Social Trends 1996

EDUCATION AND TRAINING

% of 18 year olds in education and training (full or part time)*



Source: HMSO, Social Trends 1996

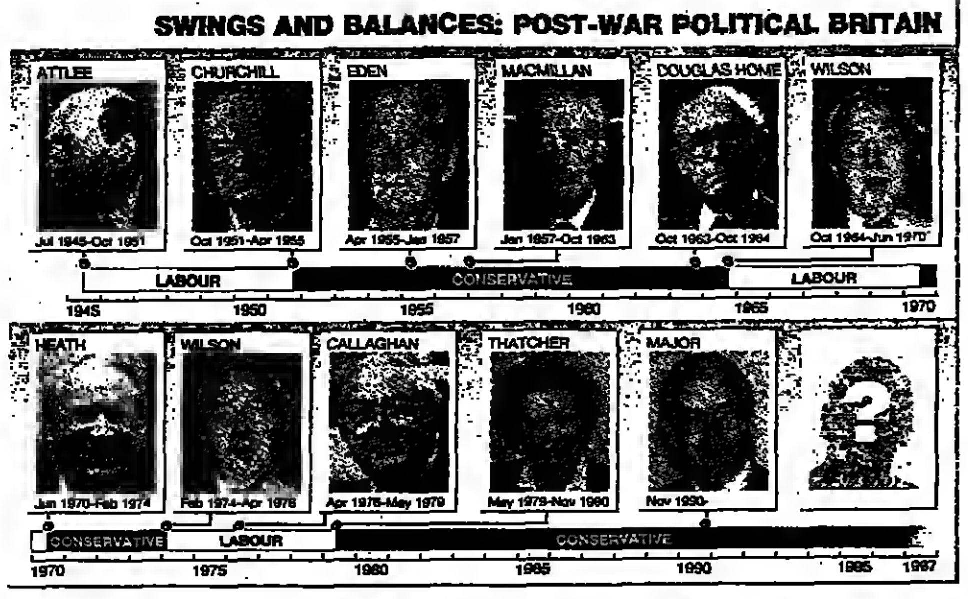
* Latest available figures

■ **Political debate** • By Philip Stephens

The politics of power

New divides have opened up in British politics. Europe and the constitution now dominate the debate

SWINGS AND BALANCES: POST-WAR POLITICAL BRITAIN



History always has a future. Fresh, unexpected upheavals chase each new consensus. So it is with British politics. During the past few years the fault line that defined the post-war political landscape has all but disappeared. There is now an unprecedented measure of agreement among the main parties on the primacy of the market over the state in promoting economic prosperity. But other, deep fissures have appeared. The old arguments were about economics. The new ones are about Britain's place in Europe and about the way it is governed.

The fevered nature of current political debate in part reflects the imminence of the general election. It is at most 11 months away. The prime minister's wafer-thin majority in the House of Commons might force an earlier contest. The odds now seem to be stacked heavily in favour of an end to 17 years of Conservative rule. Mr Tony Blair's Labour party has a massive lead in the opinion polls. Mr John Major's latest confrontation with his European partners over the ban on British beef exports serves to underscore the bitter feuding in the Conservative party over Europe.

Consider first, though, the new consensus. By the conventional yardsticks of the 1970s and 1980s, there is little to separate Messrs Major and Blair. Mr Major, chosen six years ago to smooth the rougher edges of Thatcherism, is a pragmatist rather than an ideologue. The 43-year-old Mr Blair has set as his ambition the permanent return of his party to the centrist mainstream. In another era, one could imagine the two men finding themselves on the same side.

Thus the most eloquent testimony to the success of Margaret Thatcher's revolution is found in Mr Blair's prospectus. During most of its lifetime, Labour has denied the reality of the marketplace. No longer. Mr Blair is a social democrat not a socialist. In the question of economics he is better described as a small "c" conservative. One of his first acts as leader was to strip his party's constitution of its emblematic commitment to state ownership. It now exalts instead the benefits of a "dynamic market economy". Mr Gordon Brown, the shadow chancellor, propounds an approach to fiscal policy and to inflation as tough as any.

There are Labour assurances also on tax. True, the (very) rich might be asked to pay more. But Mr Brown insists the middle classes can breathe easily. Labour has awoken from its redistributive dream. The ambition now is for a level playing field of opportunity. Mr Blair calls this "New Labour". Of course, there are still differences between right and left in their approach to the economic insecurity which has become the central preoccupation of the electorate. Technological advance, global competition and corporate down-sizing have turned upside down the comfortable assumptions of what the politicians call "Middle England".

The middle classes have been robbed of the post-war certainties of life-time employment and of steadily rising prosperity. Mr Major's response is further deregulation and liberalisation, a flexible employment market, lower taxes and a smaller state. In this vision, competitiveness is all. Britain becomes an offshore haven for enterprise and investment on the edge of a sclerotic European continent. It is Hong Kong writ large, an economy in which the best security against change is the capacity to embrace it.

Mr Blair takes a different tack. Under-investment is the problem. The Conservatives are accused of fracturing the nation's social cohesion. Outside the economic mainstream, lies a growing underclass of badly educated, unemployed, under-achievers. New Labour's answer is more investment and open, life-time, access to education and training, and thus to employment. Like Mr Bill Clinton, the US president, the Labour leader promises work to replace welfare.

Such issues will be fiercely debated before the election, no doubt with more heat than light. But it is political power – its distribution within Britain and the extent to which it should be shared with continental Europe – that will loom largest in the approach to the millennium. The nation has still to come to terms with its relative decline. Pragmatism pushes the politicians in the direction of Europe. Insecurity and pride tell them that Britain can stand apart. At home, an ancient, unwritten, constitution is creaking.

The politicians must decide how the nation is to be governed. They must establish a durable relationship with the rest of Europe. These are challenges which will not easily be met. The potential for agreement is often clearer across the old right/left divides than within the coalitions represented by the two main parties. A sensible outcome would fracture party allegiances.

Europe has dominated the political debate since sterling was driven from the exchange rate mechanism on that black Wednesday in September 1992. That event, alongside the protracted struggle that accompanied ratification of the Maastricht treaty, transformed the dynamics of Mr Major's government. The so-called beef war is just the latest episode in a sorry saga which has seen Britain drift further apart from Germany and France and the Conservative party fracture.

At this short distance, it seems incredible that the catalyst for Margaret Thatcher's fall in 1990 was her isolation in Europe. The deeply ingrained scepticism encapsulated in her Bruges speech is now commonplace in her party. Through the dark prism of resurgent Tory nationalism, the entity created at Maastricht seems a plot to subsume the nation in a German Europe. Mr Major and most, but not all, in his cabinet remain convinced that Britain's future lies firmly in the European Union. Politics as much as economics argues against isolation. So they have sought a compromise in which Britain holds to its present commitments but would stand aside from the next step on the road to integration.

A year or two ago such a stance might have preserved a veneer of unity. But pro-European Conservatives are in retreat. The dispute over beef has demonstrated the capacity of sections of the Tory press to fan the flames of xenophobia. The Anglo-French financier Sir James Goldsmith, ready to spend £20m in his cause, demands a referendum on Britain's future in Europe. If Mr Major loses the election, his party will lurch further in the direction of the sceptics.

For Labour, the wheel has turned in the opposite direction. In the early 1980s it backed withdrawal. Now it pledges constructive engagement, an accommodation with, if not an enthusiastic embrace for, the ambitions of France and Germany. Mr Blair signals that a Labour government would probably not join a single currency in 1999, but it would do soon afterwards.

This all seems fair enough in opposition, but, alas, Mr Blair's party is not without its insecurities and its sceptics. For all his encouraging words about deeper co-operation, the Labour leader has shown himself wary of a national mood which still resents the replacement of empire by Europe. At the moment, the Labour sceptics are less influential than their Tory counterparts, but once in government they would secure leverage. To join, say, the single currency, Mr Blair would need the support of pro-European Conservatives. For all the recent hysteria, there remains a healthy pro-European majority in the House of Commons. But it is found across the parties, not within them.

Labour's ambitious plans for constitutional reform are similarly threatened by the strait-jacket of the two-party system. This programme, a pledge to reverse the creeping centralisation of power in the state, is the most radical in Mr Blair's prospectus. Put into practice, it would profoundly alter the way the nation is governed.

The concentration of political power in the Whitehall executive is the most damaging legacy of the Thatcher era. Accountability has been eroded. The Westminster parliament has never been so weak. Local democracy has been deprived of a significant voice. The regions are ruled from London. Appointed "quangos" have replaced elected officials. As in commerce, so in politics. A monopoly of power has corrupted the cause of efficient, responsive government.

Mr Blair proposes a new parliament in Scotland, an assembly in Wales, some restoration of the financial independence of local government and reform of parliament's second chamber, the House of Lords. An elected assembly for London and, over time, regional government elsewhere in England would follow.

Across the Channel, or the Atlantic, where political power has long been dispersed, these would seem modest, and somewhat ramshackle, aims. Devolution for Scotland is simply recognition of the distinct identity it retains within the UK. The alternative is the march of Scottish separatism.

This is an issue, though, over which common sense rarely prevails in Britain. Its constitution is a fragile edifice. Past attempts at reform invariably have been vexatious. The potential for agreement is stifled by party ties. Mr Blair is assured the support of the small, third, party, the Liberal Democrats. But the Tory leadership is implacably opposed to the dispersal of political power. Without a broader consensus, constitutional change might yet become for Mr Blair what Maastricht was for Mr Major.

There is an answer. The logical extension of the pluralist politics which Mr Blair promises is a more proportional voting system for the Westminster parliament. That would break the two-party system, creating coalitions across parties instead of within them. It would allow the emergence of strong alliances on Europe and on domestic political change. It would marginalise both Tory nationalists and the unreconstructed left, thereby entrenching the pro-European centre in British politics. In government, Mr Blair might find it hard to resist the temptation of building this new political consensus. So far, he has promised no more than a referendum on electoral reform. Events may well propel him much further.

■ **The economy** • By Martin Wolf

End of relative decline

The nation's economy may no longer be in much worse shape than those of its competitors in continental Europe but that is because they, too, have caught the so-called 'British disease'

The good news is that the UK is no longer falling further behind other advanced industrial countries. The bad news is that this is more because the performance of the others has deteriorated than because that of the UK has improved.

Since the Conservatives won power in 1979, they have eliminated foreign exchange controls, deregulated financial markets, slashed top rates of direct taxation, privatised most nationalised industries and transformed labour relations. Inward direct investment has modernised several important industries, and corporate profitability has substantially improved, even though it remains below the levels in most industrial countries.

What difference have these upheavals made? Alas, not that much. Between the second quarter of 1979 and the last quarter of 1995, the UK's gross domestic product increased at a compound annual rate of around 2 per cent. The underlying growth trend has been 2¼-2½ per cent a year. Since 1981, the trough of the first of the two recessions under the Conservatives, growth has been roughly in line with that of the European Union as a whole. The US annual rate of growth has also been around 2½ per cent over the same period.

If such cross-country comparisons show that the UK's economic growth has been nothing special, how does it look from a historical perspective? Economic growth at 2¼–2½ per cent is a marked improvement on the 1.5 per cent achieved between 1973 and 1979, though worse than the 3.2 per cent of 1960–1973. But the deterioration in performance has at least been modest compared with that of the EU, whose members grew at close to 5 per cent a year between 1960 and 1973, let alone Japan, whose economy expanded at around 10 per cent.

What has changed most over the past one and a half to two decades is that every industrial country seems to have caught the erstwhile British disease.

The same conclusion can be drawn from data on overall productivity. According to the Organisation for Economic Co-operation and Development, total factor productivity – the best single measure of the rate of technical progress – grew at 1.6 per cent a year in the UK between 1979 and 1994. This was above the European average of 1 per cent, well above the miserable US rate of 0.4 per cent and even above the Japanese 1.4 per cent.

Again, the UK's performance has been worse than between 1960 and 1973, when total factor productivity growth was 2.6 per cent a year. But it has not deteriorated as much as Japan's, whose total factor productivity grew at 5.6 per cent a year, or Europe's, whose annual rate of improvement was 3.3 per cent.

Not to have fallen further behind is good. The failure to catch up is much less so. Between 1950 and 1979 UK real income per head fell from second in Europe (after Switzerland) to 10th. By the early 1990s, it had fallen to 12th. The gap opened up by those who went ahead in the 1950s and 1960s was not closed in the 1980s and 1990s.

What makes this failure surprising is that productivity in manufacturing did converge. Messrs Michael Kitson and Jonathan Michie of Cambridge University note that German output per hour in manufacturing fell from 51 to only 17.4 per cent above the UK level between 1979 and 1989, while the French advantage declined from 34.1 to 20.4 per cent.[1] Why did this good productivity performance in manufacturing fail to do more for productivity in the economy as a whole?

The most important reason for this was the sluggish growth of manufacturing. Between the second quarter of 1979 and the first quarter of 1996 output rose by a nugatory 9 per cent. It did rise by 32 per cent from the trough in the second quarter of 1981, but this recovery was completed by the late 1980s. Even between 1981 and 1994, the share of manufacturing in GDP shrank from 25 per cent to 21 per cent.

The sluggish growth of output and the stagnation of real investment in manufacturing, which was lower in 1995 than it was in 1979, can be attributed to the scanty rate of return on capital employed. This has been consistently below returns in the economy as a whole (even excluding production of North Sea oil).

Admittedly, the rate of return is higher than it was in the 1970s, when profits virtually disappeared, but it was still only 6 per cent in 1994. The decline in the rate of return, from 14 cent in 1960, has not been reversed.

When output of the sector with the fastest productivity growth stagnates, overall economic growth is likely to be sluggish. The same must be true for productivity levels, as labour is absorbed in areas where the rate of growth of underlying productivity is lower.

Nevertheless, large changes have occurred within manufacturing. Among the more striking has been the impact of foreign investment. In 1992 more than 20 per cent of the output and 30 per cent of the investment of UK manufacturing were by foreign-owned companies. These companies have higher productivity and pay higher wages than domestic ones.

They also expanded their employment at about 3 per cent a year in the 1980s. This was not the least of their valuable contributions, since employment in manufacturing as a whole was collapsing. A total of 7¼m people had been employed in manufacturing between 1973 and 1979. In early 1996, that number was down to 3.8m. The two blades of the scissors – stagnant output and rising productivity – bed snipped employment in half.

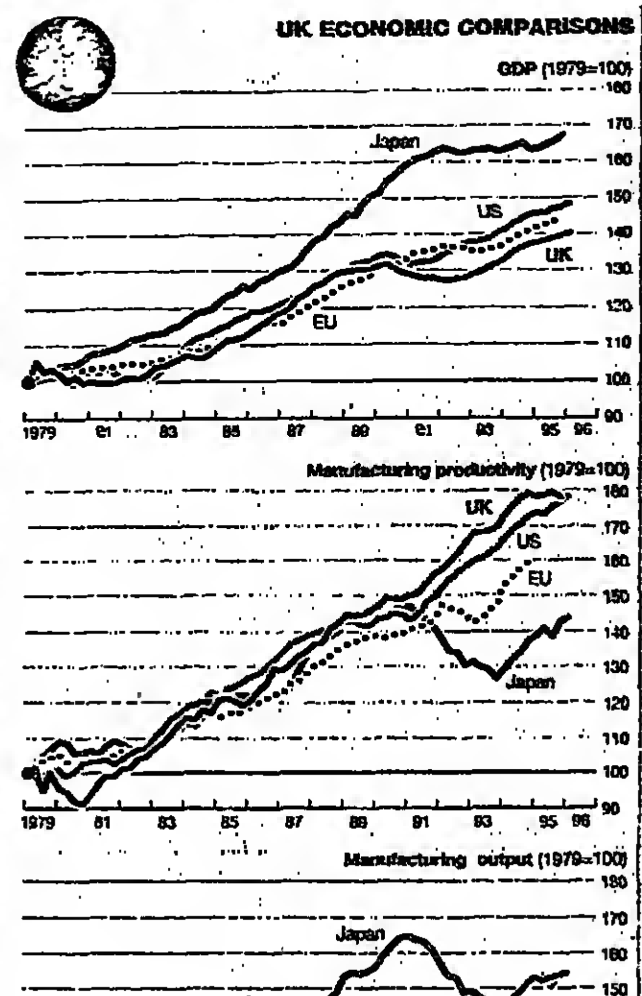
Against the background of this sharp fall in employment in manufacturing – far greater than in other significant industrial countries – UK employment performance has been creditable, by EU standards. At just under 8 per cent, UK unemployment is considerably lower than the EU average, which is around 11 per cent.

The UK's most obvious labour market success has, however, consisted in a raising of the number of women in employment by 1.13m between 1979 and 1995, to 10.86m, almost half of them in part-time work. Female unemployment has also been lower than male unemployment – the reverse of what has happened in other big European countries.

Meanwhile, the absolute number of men employed in the UK fell by 2.35m, to 11.12m, largely because the jobs lost in manufacturing were not replaced elsewhere. Unskilled males have lost not only job opportunities, but have also suffered a marked decline in their wages relative to those of the more skilled. This has created both a loss of potential output and a serious social malaise.

If the test were how far the British economy is more dynamic and employment-generating than it was a generation ago, it would receive rather poor marks. Arguably, it is no longer in worse shape than other European countries. Their performance has also deteriorated rather more. Yet even if the end of relative decline is an achievement, it is hardly an earth-shaking one.

[1] *Michael Kitson and Jonathan Michie, "Manufacturing Capacity, Investment and Employment" in Jonathan Michie and John Grieve Smith eds, Creating Industrial Capacity: Towards Full Employment (Oxford: Oxford University Press, 1996).*



■ **Financial services** • By Richard Lapper

A tale of two cities

Although often reviled at home, the Square Mile still commands respect abroad

Its perimeters guarded by machine-gun toting policemen, the City of London looks like a city under siege. And at first glance, the damage caused to its infrastructure by IRA bombs is more than matched by the harm inflicted on its reputation by a dismal catalogue of failures and problems. Each one of the City's three great institutions – the Stock Exchange, Lloyd's of London and the Bank of England – has been under fire in recent years.

The exchange is in disarray, having seen the departure of two chief executives since 1992; the 300-year old Lloyd's market has come to the brink of bankruptcy, losing more than £8bn since the late 1980s; and the Bank has had its role as regulator fiercely criticised because of the collapse last year of one of London's oldest and most venerable financial institutions, Barings. Mr Michael Cassidy, policy chairman at the Corporation of London, a local government body, concedes that the City's image has been hit. "Within the UK there is a general sense that things aren't under control and that somebody ought to do something," he says.

But he is quick to point out that these recent institutional traumas tend to mask more positive trends: the revival of London as the world's pre-eminent financial centre; and a rise in its contribution to the broader UK economy.

Following the first world war, the City gradually decreased in international importance, reflecting the decline of sterling as a reserve currency, but it has re-emerged as the leading centre of global currency and capital markets. Like the traditional institutions, UK merchant banks, too, may have had their day, but their bigger and more successful international rivals are flocking to London, attracted by a sympathetic regulatory regime, skilled and flexible labour, and generally good infrastructure.

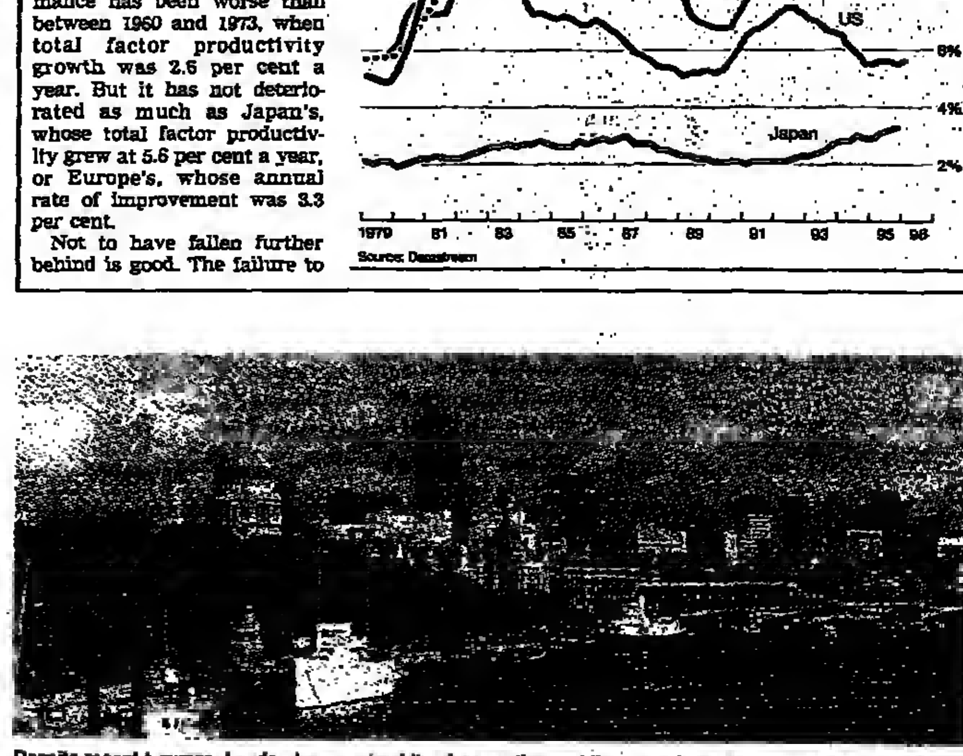
As Mr Pen Kent, a director of the Bank of England puts it: "The City has had to depend on some factor other than the stability of the domestic economy. London has learned to make its living by using other people's money."

This revival, whose roots lie in the relaxation of exchange controls in 1958 and the launch of the eurocurrency and eurobond markets in the 1960s, has gathered pace since the mid-1980s. Against a background of increasing volumes of international capital flows, two domestic reforms have proved to be particularly supportive for the City: the abolition of exchange controls in 1979 and "big bang" in 1986 – which entailed radical changes in dealing methods at the stock exchange.

According to research co-sponsored by the Corporation and the London Business School (LBS) London's wholesale financial markets grew particularly quickly between 1986 and 1993, with aggregate revenues more than doubling. Traditional sectors such as foreign exchange and equity trading have surged ahead. London's market share of foreign exchange transactions, for example, has grown from 27 per cent in 1992 to 30 per cent in 1995, according to the Bank for International Settlements.

In addition, however, innovative areas such as derivatives trading have taken root in London. The London International Financial Futures and Options Exchange (Liffe), formed in 1982, ranks alongside the two big Chicago exchanges as one of the top three futures and options markets in the world. LBS figures show that revenues from these sometimes lucrative international primary equity businesses grew by more than three times between 1986 and 1992. London is the world's biggest fund management centre. And between 40 and 50 per cent of international mergers and acquisitions are handled in the City.

This constellation of activities has allowed London-based traders, salesmen, analysts and bankers to develop and fine-tune skills to an extent unmatched elsewhere in Europe. "Deregulation in the mid-1980s has led to an exponential growth of London's skills base," says Mr Joseph Cook, head of European capital markets at JP Morgan, the US bank. "There is a breadth of talent in London compared with other European centres."



Despite recent traumas, London has regained its place as the world's pre-eminent financial centre

Employers are particularly interested in the abundance of dealing and sales skills. For both trading and backroom operations, the flexibility of the UK labour force is also seen as a significant attraction, especially compared with the highly regulated German labour market.

Mr Cassidy says the City derives "huge benefit" from the fact that the UK has not signed up to the European Union's social chapter. Bankers also say that it is easier to obtain work permits for international high flyers from the UK than from other European authorities, a fact that has helped the City build up its expertise in the derivatives and risk management areas.

London's reserves of support services – ranging from lawyers and accountants to specialist designers, printers and public relations advisers – and relatively low telecommunications costs are also seen as significant attractions for foreign banks, many of which have stepped up their takeover activities in London in the past two years. The wave of interest that succeeded big bang in the late 1980s now has new momentum. Last year alone, Dresdner Bank bought Kleinwort Benson, ING of the Netherlands bought Barings, Merrill Lynch of the US acquired Smith New Court, and Switzerland's SBC bought SG Warburg. Others, most notably Germany's Deutsche Bank, are choosing to centralise investment banking in London.

Meanwhile, US and Japanese banks are also favouring the City above other European centres. "If (they) have a pan-European presence London is the hub and other offices the spokes," explains Mr Cook at JP Morgan. "If they have one European centre it tends to be London."

Britain's economy is benefiting. According to the LBS, the output of the UK's financial services sector rose from £30bn in 1982 to £85bn in 1992 (and from 12 to 17 per cent of GDP). Of this, of course, London contributes a disproportionate amount. Similarly, export earnings by City-based financial institutions helped the UK's overall overseas receipts from this sector to rise from £9.2bn in 1984 to £20.4bn in 1994. Employment, too, is on a rising trend with the number of people in City firms – including law practices – rising by 15 per cent between 1981 and 1991 to reach 617,000.

The City's supporters insist that these figures are evidence of the success of the open approach championed by successive recent governments. But in the country at large the attitude persists that the City is run by gentlemen capitalists and speculators for their own benefit. Despite the radical changes of the 1980s, it could take some time to break down these traditional prejudices. Mr Cassidy says that last year the Corporation found it easier to sell the City in the Far East than in northern Britain. The odds are that for some time to come businessmen in Shanghai could be more enthusiastic about the City than their counterparts in Leeds.

■ Analysis: The New Capitalism

A brave, but imperfect, new world

The single global marketplace – of which Britain is part – will bring many opportunities, but this market also needs a wider distribution of capital, writes Samuel Brittan

A creeping change is coming across the old established industrial economies of the West, which has indeed arrived earlier in Britain than in most of western Europe. This change, and the anxiety it brings, are, however, coming in one form or another to most industrial countries. And they cannot be just attributed to the vagaries of particular governmenta; they represent common forces.

The cliché name for the new developmente is "glohalisation". In other words, the world is a single market place, in which there is great pressure to perform. For whatever cosy arrangements exist in a particular trade, they will be threatened not merely by domestic oewcomers, but by competitors, often backed by very big money indeed from all parts of the world.

Another much trumpeted implication is that governments have much less power than used to be thought. The stock example is the way that Britain was forced out of the European Exchange Rate Mechanism in 1992. Another implication is that governments no longer have the option of running unlimited budget deficits. If they try, they will have to pay ever-increasing interest rates. For buyers of their bonds will need compensation, at first only for the exchange rate risk, but, as more and more is borrowed, for the default risk as well.

Convergence

But there is another way of describing these trends. This is by the alogan "convergence". It means that rewards either to capital or to labour with particular skills will tend to converge. This equalisation principle was first described by Adam Smith and is the real clue to a market-based economic system.

The big difference between Smith's day and our own is that the obstacles to equalisation have been progressively dismantled, both hy the removal of financial controls and by the development of technology. If the return on capital in e pin factory in Ruritania is higher than one in Glasgow, it will not take long for capital to move from one place to the other.

The effects on workers are more subtle hecause eveo today labour moves mucb more slowly than capital, even in areas – such as the European Unioo – that are supposed to be ones of free movement. Equalisation here comes about through the investment process. The same techniques are availahle to businessmen in Mongolia as in Manchester or Minnesota. And once a basic minimum of education has been achieved, it is surprisingly easy to train workers in the use of these techniques. I do not want to take this argument as far as Pat Buchanan or James Goldsmith. The advanced industrial countries still gain from trade. But the gains accrue unevenly to capital and to labour.

The first reaction to this new globalised capitalism, is to treat it with horror and to try to fight it with subsidies, back-door protection and so on. The second reaction is to welcome it. A good example is in a book published on May 7 hy two McKinsey management economists, Lowell Bryan and Diana Farrell, under the title *Market Unbound: Unleashing Global Copitolism* (John Wiley, £19.99). The anthors believe that an unprecedented era of prosperity stretches ahead precisely because of the equalisation principle I mentioned before. But the price of this prosperity is a relentless pressure to perform. Otherwise your company faces at best takeover and at worst extinction; and the same applies to your job.

The interesting thing is that a similar reaction can be found in some sections of the British political left. The April Fabian Review contains an enthusiastic article by Terry Robinson – an economics lecturer in Bolton. He welcomes the greater ability of markets to punish governments that make bad decisions, borrow excessively, or pursue inflationary policies. He points out that high inflation hurts the poor most. He believes that there are many things that a Labour government can do, such as reforming the educational system, ensuring better regulatioo of utilities and – more douhtfully – finding new ways to increase investment that would please rather than frighten world financial markets.

It is interesting that so much of the discussion on globalisation is taking place on the Left. There is no parallel discussion among the Tories, except for a purely polemical use of globalisation to frighteo people off any closer association with Europe.

> The removal of middle management has caused the disappearance of know-how and tricks of the trade so vital to many businesses

There is a third reaction that is found mainly in academic circles, but may articulate a more widely held suspicion. This can be aummarised in good American as: "So what's new?". The argument is that we have simply gooe back to the world that prevailed before the first world war when there were no exchange and capital controls, and net overseas investment was in many countries a higher proportion of national income than it is today. Indeed, we should concede that the invention of the trans-Atlantic cable probably did more to bring the world together than any of today's computer inventions.

But technology does surely mark out some division between today's world and that of the decades before the first world war. Far more information – admittedly much of it short term and trivial – is cooveyed far more quickly.

There is also far more financial innovation. Before the first world war there were no foreign exchange and bond markets with a daily turnover in excess of the whole world's annual national income.

Journey to work: today's employees fear they may have to abandon hopes of a lifetime career

The downside

Where are the snags in this hrave new world? The ooe most emphasised by the American authors is high hudget deficits. For the same international capital markets that make it easier to run deficits in the first place punish governments more severely when they hecome prolonged and excessive. It is not only the governments that overborrow that are in danger, hut also the banks and other financial institutions that hold their bonds. It has to be said, however, that the nearest we have seen to such a downward spiral was the boom and hust in Japanese financial markets. On the surface at least, this was a private sector phenomenon.

A danger that plays a greater part in most people's lives is *job insecurity*. This is different from treditlooal unemployment in being a fear of existing workers that their jobs are at stake, that they may have to abandon hopes of a life-time career and set themselves up as entrepreneurs offering a wide variety of skills.

Is the fashion for de-layering, downsizing and general job shedding an inherent feature of globalisation? I do not know. All that theory can tell us is that *if* the traditional corporation is too large and disintegration would be more efficient, market forces will press in their direction but everything depends on the *if*. Already US studies suggest that delayering has sometimes gone too far. In particular, the removal of middle management has caused the disappearance of know-how and the tricks of the trade so vital in many businesses.

What worries me most is something different. Eqnalisation takes place among similar types of workers; but there are many types of workers; and differeoces betweeo types can increase. There is also the possibility that in a world where capital is scarce and labour is cheap, the absolute returns to labour, relative to capital, will come under pressure.

It is wishful thinking to suppose that education will remove these distributional problems. People differ in their capacity to absorb training. Moreover, many of the income differences that have widened out in the US labour market have been among people with comparahle educatiooal records. You can say that the lucky ones have more social skills. But a better way of putting it is that they are simply more *streetwise* – a quality that the current fad for examination credentials will not be ahle to spread evenly among the working population.

Stakeholders

One of the few things that is certain is that companies that do not maximise the valuc of equity held by their shareholders are going to be in deep trouble. I cannot think of a time wheo the stakeholder idea has been of greater potential harm. It was a half-baked idea even in the best of circumstances.

This emphasis on maximising equity value would be all to the good if capital were more widely distributed. The growth of pension funds and other institutions means that capital is more widely distributed than appears on the surface. Even so, about half the population of a typical western country is poorly endowed with capital on any basis of calculation.

It is difficult to think of ways of securing a better distribution of capital without imposing taxes that would make a country doing so unattractive in a global economy. The late James Meade advocated a long series of Budgel surpluses that could be used to fund a basic income guarantee or citizen'e trust funds. The search for a credible approach to the distributional problems of the New Capitalism continues.

■ Foreign policy • By Edward Mortimer

Drawn towards the high seas

Deeply ambivalent about its role in Europe, Britain still sees itself as a player on the global stage

"Between the mainland and the high seas, we shall always choose the high seas." So Winston Churchill told Charles de Gaulle during the second world war, according to the latter's memoirs. In 1973 another Conservative prime minister, Mr (now Sir) Edward Heath, appeared to have proved Churchill wrong. Britain, which had by then shed most of its overseas empire, joined the European Community.

This did not, of course, mean turning its back on the rest of the world. Britain remained a global trading power, and the close ally of the US. But to many observers at the time, and certainly to Mr Heath, it did imply that henceforth Britain would be primarily a European power, and would seek to advance its interests in the world by pooling resources and working together with its partners in the EC.

Today, that is far from being so clear. For 11½ of those years, Mrs Margaret (now Baroness) Thatcher reigned in Number Ten Downing Street. A new generation of Conservatives learned from her to take pride in Britain's achievements, instead of bemoaning its decline. They regard their party as the natural defender of British interests and traditions against the encroachments of "Brussels", seen as the seat of a tentacular, socialising bureaucracy.

Although in the end Mrs Thatcher took this nationalism too far for the majority of her cabinet and parliamentary colleagues, creating a split that helped to bring about her downfall in 1990, her attitude has gained ground since.

On "Black Wednesday" (September 16, 1992) Britain was forced out of the European exchange rate mechanism. Since then, the tide in the Conservative party has run steadily in a nationalist direction, to the point where many on the right openly discuss the possibility of Britain withdrawing from the European Union.

As the core countries of the EU prepare for monetary union in 1999, and as the 1996 intergovernmental conference looks for ways of giving the Union a single voice in foreign and security policy, Mr John Major and his cabinet colleagues have had to distance themselves from the European consensus in order to stay near the centre of gravity of their own party.

Last month's decision to adopt a "non-co-operation" policy in the EU, although ostensibly a tactical response to a short-term crisis over beef exports, could never have been taken but for this longer-term political context.

Partly to divert attention from the party's divisions over Europe, ministers have sought to emphasise Britain's wider global role. Such was clearly the object of the conference on "Britain in the World", which the government organised with the Royal Institute of International Affairs (RIIA) in March 1995. Indeed Mr Major, in opening the conference, suggested it "might aptly have been titled 'Britain in the Wider World', because the domestic debate in Britain has focused far too narrowly on the internal workings of the European Union".

Those issues were very important, the prime minister conceded, "but so too are the UK's interests and responsibilities in the other four continents and the oceans between, to which the other half – and a growing half – of our total trade goes". (The reference to the oceans may have been a deliberate Churchillian echo.)

Later the same day, Mr Douglas Hurd, then foreign secretary, observed that many of those attending the conference had spent most of their lives "during a period of British decline". This period, he said, had come to an end in the 1980s, but "we have not noticed the fact". The same point had been made in the briefing paper for the conference by the then head of the RIIA's international economics programme, Mr Vincent Cable: "For the first time in generations, a debate on British interests and foreign policy is not being conducted against a background of relative economic decline."

At least when compared to other industrialised countries (though not to emerging economies) Britain's relative importance in world exports has stabilised, as the fifth largest for goods and the third for services.

Malcolm Rifkind, foreign secretary, has called for a new and broader Atlantic relationship between the US and Europe

"Furthermore," wrote Mr Cable, "Britain has been through a painful process of structural change and deindustrialisation, deregulation and exposure to external competition which other developed countries have not yet faced to the same degree, although they will soon have to do so."

Since that process of change is associated with Lady Thatcher's name, Conservatives certainly *have* noticed that it coincided with the halting of Britain's relative decline. Most of them assume, indeed, that this is more than a coincidence. They associate Thatcherism with recovery, and are irritated by the electorate's apparent unwillingness to recognise that recovery has happened. They themselves, on the other hand, often seem reluctant to acknowledge how far the EU has come in adopting a "British" economic philosophy, with a much stronger commitment to competition, deregulation and open markets.

In spite of this, western Europe now looks like an area of high unemployment and slow growth, if not stagnation, when compared with Asia or north America. Britain's economy looks successful by west European standards, and this success has been achieved partly by attracting inward investment from outside Europe, notably Japan. It is therefore not surprising that British leaders now feel more inclined to stress Britain's global role and global assets.

Most of these, however, have less to do with Britain's recent economic success than with its imperial past. Many of them are intangible, but not necessarily the less valuable for that. For instance, it would be very hard to quantify the benefits Britain derives from the fact that English has become *the* world language, known to an estimated 20 per cent of the world's population.

By 2000, some 1bn people living outside the UK will be learning English. English language teaching goods and services earn the UK about £500m a year directly, but the facility of communication with the rest of the world that English provides must be worth far more than that. There are in excess of 100,000 full-time overseas students in the UK, while the BBC World Service has an audience of over 130m. The English common law system is used in more than 40 countries. The British music and publishing industries each bring in over £1bn in export earnings each year. And so on.

From its imperial past, Britain also retains a tradition of interest in and involvement with distant parts of the world, including the developing countries. While Britain's aid budget is low as a proportion of gross domestic product, it is still the sixth largest in the world, and 70 per cent of it goes to the poorest countries. In eastern Europe, the tiny but imaginative British Know How Fund has financed projects ranging from the clean-up of Chernobyl to the launching of Kazakhstan's first TV soap opera. Britain also retains the habit of sending troops overseas.

It was the second biggest non-Arab contributor (after the US) to the coalition that liberated Kuwait, and now has the second largest contingent in Bosnia. It cherishes its role as one of the five permanent members of the UN Security Council, and one of the five nuclear weapons states recognised as such in the non-proliferation treaty.

Successive British governments have sought to singularise themselves in Europe by stressing a "special relationship" with the US. This was a reality when Mrs Thatcher and President Ronald Reagan were in power, but at other times has been an awkward affair, because of the glaring asymmetry in power and the desire of most US administrations to deal with a united Europe.

Mr Malcolm Rifkind, who succeeded Mr Hurd as foreign secretary last year, has devoted a series of speeches to the need for a new and broader Atlantic relationship between the US and Europe as a whole, encompassing economic as well as security ties.

This chimes well with the "new transatlantic agenda" adopted by the US and EU at a summit in Madrid last December. But it has not made it any easier for Conservatives to agree on their attitude to the next stages of European integration, of which the most momentous will be the adoption of a single currency.

Some Conservatives may even be secretly hoping, as well as expecting, that the crucial choices will fall to a Labour government.

■ **A view from Brussels** • By Lionel Barber

A risky policy of divide and misrule

An ambivalent attitude towards European union looks increasingly dangerous

The British often describe their role in Europe as that of a useful troublemaker, knocking sense into misguided foreigners and avoiding unnecessary entanglements.

The policy of divide-and-rule has led to missed opportunities. In 1945, a victorious Britain could have seized leadership of Europe for a song. Ten years later, it spurned an invitation to take part in the drafting of the treaty of Rome that created the European Economic Community.

After more than 20 years of membership of the European club, British attitudes remain as ambivalent as ever. The "beef war" has become a metaphor for a troubled relationship: British high-handedness compounded by a failure to grasp that the BSE crisis was a matter of common European interest incapable of being resolved by national means alone.

In the next five years, a future UK government, Labour or Conservative, will face hard choices inside a European Union where a majority of countries are committed to deeper integration built around a single currency and enlargement to central and eastern Europe.

The dress-rehearsal for the drama that lies ahead is the EU's inter-governmental conference, the review of the Maastricht treaty now under way. Likely to last until mid-1997, after the UK general election, the IGC will probably produce a treaty sanctioning new, more flexible forms of integration.

The issue is whether a vanguard of member-states, led by France and Germany, should be allowed to move ahead of the rest, to co-operate more closely in specific areas such as foreign policy and internal security.

Sir Roy Denman, who served as the EU's ambassador in Washington, argues in a newly published book that a wavering Britain risks becoming marginalised, a fitting end to "the tragedy of Britain and Europe" in the 20th century.

"At the beginning of the period, Britain was at the centre of the greatest empire in the world," he says.

"It will end with Britain a small country on the periphery, excluded from the European superpower, no longer rating membership of the Group of Seven and permanent membership of the United Nations Security Council, about as important on the world stage as Switzerland."

John Major. The litmus test for British policy towards Europe remains monetary union

The Denman thesis is exaggerated, notably in its claim that the EU, a diverse, often fragmented entity, is close to superpower status; but it reflects a widely held view in Europe that monetary union and enlargement will happen. At issue is whether Britain wants to shape the new Europe, or whether it is condemned to repeat history and play catch-up.

From Europe's vantage point, British membership of the EU is still seen overwhelmingly as an asset. Despite grumbles about contaminated British beef or Tory Euro-scepticism, the British ability to inject practical sense into a debate, particularly on foreign policy, is admired.

Much of the present trouble between Britain and Europe is due to the Conservative party's wafer-thin majority rather than to an endemic national character flaw. "The problem is not John Major," says a senior Belgian diplomat. "The problem is that he has a weak government."

Britain counts because it contributes to the balance of power inside the EU. The preponderance of Germany, through its economy and its 80m-strong population, is such that France alone cannot act as a counterweight.

"Britain is important, warts and all," says a Danish diplomat.

The bad news from London's point of view is that her continental partners are less willing than before to tolerate a British veto in areas where they believe an interest exists in joint action. British blocking tactics to the beef war may have the perverse result of strengthening the case for majority voting.

This is true of Germany, where the chancellor, Mr Helmut Kohl, is intent on binding his country irreversibly into a network of integration extending west of the Rhine and east of the Vistula; but it also applies to the European Commission, the Benelux countries, even perhaps to the Scandinavians when it comes to the environment, social policy, and justice affairs.

The swing state is France. During the Maastricht negotiations in 1991, France tempered its support for German-led political integration by siding with the British against a federalist Europe.

Mr Jacques Chirac, the Gaullist president, says he shares Britain's view of a Europe of nation states, but there is an important difference. The French have concluded they can wield more influence inside the EU than they could as a notionally independent actor outside it. Thus France has signed up to the German-led majority view that an *avant garde* principle allowing some countries to move ahead in integration may be inevitable.

The EU is considering formulae for joint action that bypass the national veto such as a "very strong majority" (12 out of 15 states) or consensus minus one. Countries "opting out" would not, however, receive a free ride. At best, they would be required to pay for joint actions; at worst, they could find themselves shut out of Council discussions.

In justice and home affairs, where the UK has taken a hard line against the role of the European Court, officials are also studying the possibility of creating new legal instruments and a separate Union budget to bypass British objections.

The trick is how to organise such a flexible Union without running the risk of fragmentation. The consensus in the IGC negotiations is that countries will have to subscribe, willy-nilly, to a core set of obligations involving the single market such as the freedom of movement of capital, goods, services and people.

To an extent, plans for new flexibility anticipate arrangements needed to manage a Union of 20-plus members that will include economically weaker countries from central and eastern Europe. But they also draw inspiration from the British opt-outs on monetary union and social policy won in the Maastricht treaty negotiations.

Should the leader of the opposition, Mr Tony Blair, become prime minister, he would no doubt recapture goodwill by ending the boycott of European Union social policy, but the litmus test for British policy towards Europe remains monetary union.

If the British are economically strong enough to join the single currency but decide against it on political grounds, the die will have been cast.

■ **Manufacturing industry**

Transformation in the past 20 years

The complacency of the post-war period has been replaced by a drive for modernisation, writes Geoffrey Owen

Over the past 20 years, British industry has gone through a delayed modernisation. For the first three decades after the second world war, British manufacturers lost ground to overseas companies, which were quicker to exploit the opportunities created by the expansion of world trade.

Towards the end of the 1970s, and more decisively in the 1980s, the tide began to turn. Companies were reorganised as managers set about correcting past mistakes and aligning their strategies to the needs of the world market. Government policies, instead of holding back industrial change as they had done for most of the earlier post-war period, stimulated and facilitated it. The gap in productivity between Britain and Germany, which had widened alarmingly in the 1950s and 1960s, was narrowed and – in some industries – closed.

What happened in the 1980s and 1990s could not repair all the damage caused by the earlier lag, nor could it restore British industry to the pre-eminence that it had once enjoyed.

In adapting to what had become a more crowded market, British companies have had to play to their strengths, concentrating on businesses that could hold their own on the international stage and withdrawing from those that could not; in some cases, gaps left by uncompetitive British-owned firms have been filled by foreign companies. Through specialisation and internationalisation, Britain has found a role for itself as a medium-sized European industrial power, well integrated into the world market.

The catalysts for modernisation were partly external – an intensification of international competition – and partly internal, linked to the policies of the Thatcher government. This combination of pressures exposed weaknesses that had been more easily tolerated in the comfortable conditions of the 1950s and 1960s.

A striking example was the transformation of one of Britain's oldest and largest engineering companies, Guest Keen and Nettlefolds (GKN). Formed in Birmingham at the start of the century by three companies making nuts and bolts, woodscrews and iron and steel, GKN had expanded, partly by acquisition, into a range of steel-using businesses.

Like many other long-established British companies, it was almost wholly dependent on Britain and the Commonwealth. The nationalisation of steel in 1967 removed one of the original props of the group, but it was not until the second half of the 1970s, when its financial position deteriorated, that a drastic change of direction became necessary. As Sir Trevor Holdsworth, who became chairman in 1979, put it: "We were drifting uncertainly into the future without a clear strategy. A new generation of senior executives was emerging and we set about trying to make sense of our inheritance... we had to find new products, new technology and we had to spread internationally."

That's the way to do it: the catalysts for modernisation were partly linked to the policies of Margaret Thatcher's government

In the 1960s GKN had acquired a British engineering company, Birfield, which made components – drive shafts with constant velocity joints – for front-wheel drive cars; its first application was in one of the British motor industry's most famous models, the Mini.

As the vogue for front-wheel drive spread throughout the world's car manufacturers, Birfield's unique technology enabled GKN to build an international business in vehicle components, with Continental Europe and the US as two of its principal markets. It was a painful transition, involving divestments, closures and redundancies, but GKN succeeded in re-inventing itself in a form that was better suited to the market conditions of the 1980s and 1990s.

Other companies have gone through similar upheavals, often driven by newly appointed leaders who were prepared to rethink the unthinkable, questioning the assumptions on which earlier strategies had been based. In Imperial Chemical Industries (ICI), Britain's largest chemical company, the trigger for change was the severe recession of 1980-1981, when the dividend was cut for the first time in the company's history.

Sir John Harvey-Jones, an unconventional chairman who encouraged unconventional thinking in others, initiated a new approach to strategy and organisation that was revolutionary by ICI's standards; it involved withdrawing from products where the company no longer had a cost advantage, redeploying its resources into higher added-value chemicals, and expanding more aggressively in the US.

The streamlining of ICI was taken further by Sir John's successor, Sir Denys Henderson, and culminated in the decision to split the company in two. One of the motivations behind the demerger was the belief that each of the two successor companies, by specialising in a narrower range of products, would be able to respond faster and more effectively to international competition. The two companies' performance since the demerger has confirmed the soundness of Sir Denys' judgment.

The instigators of reform have been managers who had a more realistic view of their companies' strengths and weaknesses than their predecessors. But the pressure for change was reinforced by Thatcherism. While the reduction to trade union power is rightly seen as one of the most important events of the 1980s, no less significant was the abandonment of the interventionist industrial policies that most earlier British governments had pursued.

The Thatcher government refused to support "national champions" or to bail out "lame ducks". Virtually all the industries and companies nationalised since 1945 were returned to the private sector, and it is here that some of the biggest gains in productivity have been achieved: the British Steel Corporation is the most celebrated example.

A further consequence of this hands-off approach has been the transfer into foreign ownership of some companies previously regarded as strategic.

Some observers deplore what they see as a loss of national sovereignty in key technologies, but the performance of two industries that had earlier been the target of extensive and mostly ill-judged government intervention, electronics and cars, has been greatly improved as a result of inward investment. One may regret the mistakes by managements and governments that led to the decline of British Leyland/Rover in the 1960s and 1970s, but this company has a better chance of surviving in the world market as a subsidiary of BMW of Germany than as a ward of the state.

Each industry has had to find its own way of integrating itself into the world market. The paper and board industry, once seen as a hopeless case because of Britain's lack of indigenous forest resources, is a perfect example of belated modernisation.

Since the early 1980s the structure, ownership and performance of this industry have been transformed. Reed and Bowater, which had been the two biggest producers, have withdrawn from papermaking; several foreign companies, principally from the Nordic countries, have built or acquired mills in Britain; and the remaining British-owned companies have specialised successfully in sectors of the market where lack of access to forests is not a disadvantage.

A once-insular British industry has become part of the world market, with higher productivity, higher exports and more modern equipment. It is a microcosm of what has been happening to British manufacturing as a whole.

■ **Energy utility industry** • By David Lascelles

No end to power struggle

After 10 years of revolutionary change, the energy industry has yet to find stability

Britain's energy utility industry, the pride of its privatisation programme, is in turmoil. The gas and electricity sectors are both undergoing far-reaching restructuring in what many people see as a belated response to mistakes made in the original sell-offs.

Much of the action has been concentrated in the electricity industry in England and Wales, which was originally sold off as two large power generators, National Power and PowerGen, and 12 regional distribution companies.

Over the past year, six of the regional companies have been swallowed up by larger industrial groups, including US utilities. But the process was brought to a halt in April when the government barred bids by National Power and PowerGen to buy a further two regional companies of their own.

The official reason was concern about concentration of the electricity industry, and worries that the vertical integration of distribution and generation companies would discourage new companies from entering the market. But there may also have been a sense that things were getting out of control. Only the previous week, the Atlanta-based Southern Company had indicated that it might make a bid for National Power, a deal that would have been worth £8bn and transferred the UK's largest electricity company into foreign hands.

The action to halt the bids by Mr Ian Lang, the trade secretary, may have temporarily calmed the excitement. But the takeover wave showed that predators consider UK electricity companies to be good value, operating as they do in a stable, regulated market where the scope for further rationalisation remains large. There is also an incentive to get into the market before the regional companies lose their local monopolies to 1998, the year when full competition is due to be introduced into the domestic energy sector.

The problems of the gas market are the exact opposite. Where electricity may have been privatised in too fragmented a form, British Gas was sold as a monumental monopoly that is now having to be broken up.

Since 1991, British Gas has been under orders from the competition authorities to surrender a large proportion of its industrial and commercial markets to new competitors. This has resulted in a shift of business to new suppliers, mostly subsidiaries of large oil companies, and a fall in the price of industrial gas.

On the domestic front, British Gas still has a monopoly, though it will lose that, too, in 1998. As a foretaste, Ofgas, the gas industry regulator, has organised a pilot project in the South West of England that started in April.

Nine new companies were licensed to supply gas to the area. Initially, they managed to sign up just under 10 per cent of the market's 475,000 households by offering price discounts of up to 24 per cent. This share was rather less than the government had hoped for, but it is expected that the newcomers' business will grow as more people perceive the price benefits of switching.

Although the competition authorities held back from recommending the break-up of British Gas, the company has proposed to do precisely that itself. Mr Richard Giordano, the chairman, announced in February that his company would split itself into two parts: Transco, which operates the pipeline, and British Gas Energy, which runs the supply business.

The split was widely welcomed because it should remove the conflict of interest inherent in British Gas's role as both a supplier of gas, and a transporter of its competitors' gas. Commercially, it should also permit these two very different sides of the business to evolve in their own way.

But while recent months have seen dramatic moves to correct structural faults in the privatised industries, privatisation has brought benefits. In the nine years since British Gas was sold off, the average price of industrial gas has fallen by 48 per cent, including a fall of 24.5 per cent last year. Since electricity was privatised in 1990, industrial prices have dropped by 10.5 per cent, with half the fall occurring last year.

On the domestic front, gas prices have gone down 24 per cent since privatisation. Electricity prices are higher, partly because of the imposition of VAT on electricity bills in 1994. But they are heading down again following the introduction of new price controls by Offer, the regulator.

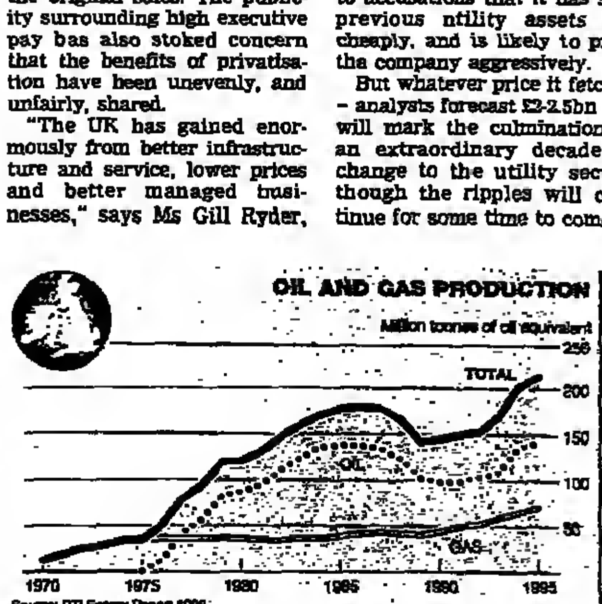
However, critics claim that these gains are small compared with the huge profits made by investors, who have seen share prices quadruple in some cases because of the underpricing of the original sales. The publicity surrounding high executive pay has also stoked concern that the benefits of privatisation have been unevenly, and unfairly, shared.

"The UK has gained enormously from better infrastructure and service, lower prices and better managed businesses," says Ms Gill Ryder, the European utilities partner at Andersen Consulting, who thinks that the UK experience has been "an extraordinary awakening for the rest of the world".

But, she adds: "It is hard to believe that we'll continue in this regime when there's so much going to the shareholders." The large future demands for capital in the utilities industry will help redress this imbalance, she says.

A test of the government's latest thinking on privatisation will come with the forthcoming sale of British Energy, the nuclear utility, likely to be the last big sale before the general election. Although nuclear is a highly controversial industry that may have to be specially priced to attract investors, the government is deeply sensitive to accusations that it has sold previous utility assets too cheaply, and is likely to price the company aggressively.

But whatever price it fetches – analysts forecast £2-2.5bn – it will mark the culmination of an extraordinary decade of change to the utility sector, though the ripples will continue for some time to come.



North Sea fields of dreams

North Sea oil, the largest windfall the UK has ever enjoyed, is proving to be anything but the brief bonanza the sceptics once warned it would be.

In April, Mr Tim Eggar, the energy minister, reported with obvious satisfaction that UK oil and gas production hit new records last year. At the same time, further large discoveries meant that reserves of oil and gas still also rose to new highs. "Taking known discoveries and the potential from all possible future discoveries," he said, "our reserves could last into the middle of the next century at current rates of consumption."

The oil industry now contributes £4bn to the UK balance of payments and accounts for 18 per cent of UK industrial investment. The industry and its suppliers employ around 300,000 people.

■ **Telecommunications and information technology** • By Alan Cane

Stopping and starting on the superhighway

Although progress has been made, the UK's record in the information technology revolution remains patchy

The mid-1970s, the dawning of the age of the microchip, found Britain with a state-owned, narrowly focused and monopolistic telecommunications operator and a single computer "national champion", ICL. It also had three manufacturers competing in the development of "System X", the flagship telecoms switch destined to become the cornerstone of BT's national network.

Twenty years on, British Telecommunications remains dominant in the UK but has to fight its corner with 150 competitors in what has become one of the world's most liberal markets. Abroad, it aims to be a leading international operator and has secured an equity alliance with MCI of the US to help realise its ambitions.

The UK has become a laboratory where foreign-owned operators develop and refine services that may be forbidden in their home countries. The country's expanding cable communications network, for example, is chiefly owned by US telecoms operators that, until recently, have not been able to offer telephone calls over their cable networks in the US. Total investment in the cable network – an embryonic "information superhighway" – is expected to top £10bn by the turn of the century.

ICL, meanwhile, is no longer the national computer champion. It has become a key member of the global Fujitsu family, Japan's largest computer group. It provides technological expertise and a bridgehead to Europe, but no longer concentrates on the manufacture of hardware. Its ambition is to become Europe's leading computer services company.

By the late 1980s, large-scale UK telecoms manufacturing had been reduced to a single company, GEC, which merged its interests with those of the German electronics giant Siemens to form GPT. System X has yet to make much of an impact outside the UK.

The fates of BT, System X and ICL in many ways sum up the UK's patchy, often erratic response to the possibilities of the information technology revolution. Talking to the British Computer Society in 1981, the author and consultant Mr David Butler argued: "That Britain Limited should seize the opportunity of the information society and turn it to great economic, social and cultural advantage is not, of course, impossible."

He has concluded, however, that GB Ltd's response to the opportunity has been disappointing – at the large company level at any rate. An analysis of the world's top 100 information companies reveals only seven UK-owned players: the BBC, BT, Cable and Wireless, Pearson, publisher of the *Financial Times*, Reed Elsevier, Reuters and Vodafone.

> Prices have been forced down by technology, competition and regulation

On the other hand, Mr Butler points to the vigour of some of the country's smaller IT companies: Viglen, for example, the PC supplier. There are others, including Psion, which now manufactures one out of every three hand-held computers sold worldwide, and VideoLogic, which sells its innovative graphics chips to the world's largest PC manufacturers. Madge Networks, meanwhile, is proving a leader in the fast-growing market for PC connectivity.

The privatisation of BT and the liberalisation of the UK telecoms market in the early 1980s – chiefly for political rather than strategy objectives – are principal reasons for the UK's strong position in telecoms services.

The introduction of competition, first to the form of a duopoly with Mercury Communications and then with cable television companies and other fixed wire operators such as Energis, forced BT to improve efficiency to the point where it is now, according to the UK Office of Telecommunications, within 10 per cent of the world's best.

Prices have been forced down by technology, competition and regulation. The UK's call charges are the cheapest in Europe: multinational companies can save up to 30 per cent of their communications costs in the UK compared with anywhere else in Europe.

"In terms of the network, the UK is among the leading nations of the world in deploying fibre and digitisation," says Sir Peter Bonfield, formerly head of ICL and now BT chief executive.

"Apart from games software, however, we lag behind the US in using applications for both voice and other data services such as E-mail. This is partly due to fewer personal computers per household with fewer connected to the network. But it is also due to a lower awareness and understanding of the benefits that information technology can bring. I am confident, however, that this is changing fast."

Three further factors characterise Britain in the IT age. First is its role in manufacturing. Although no UK-owned companies are among the first tier of PC manufacturers, the country is an important manufacturing base for global suppliers such as Compaq and IBM. It is also a favoured site for semiconductor manufacturers, with water and skilled labour in abundance in key areas.

Second, is its partnership deals. The IT business these days involves a complex matrix of companies that compete and collaborate with one another. The alliance between Siemens and GEC resulting in GPT is an example.

Videologic is pioneering a new kind of alliance it calls the "chipless chip company" with NEC, one of Japan's largest semiconductor makers. Videologic designs the chips, NEC manufactures and markets them and the UK company collects a royalty on each chip sold. Apricot, once a leading UK PC supplier, is now the global server design centre for its new owner, Mitsubishi Electric of Japan.

Third, is its use of technology. According to Mr Butler, US companies no longer lead their UK counterparts in the use of technology. This year, for example, three UK companies, the Nationwide Building Society, Churchill Insurance and the UK universities computing network SuperJanet were among the finalists in a prestigious awards programme arranged by the Smithsonian Institute.

It remains to be seen what part the UK can play in providing content for the galaxy of new entertainment channels based on digital technology that are promised by the world's broadcasters, the BBC and BSkyB among them.

■ Foreign direct investment • By Stefan Wagstyl

A flood still in full spate

The UK has been the top destination for non-European investors for some 20 years

Acrison, a family-owned company making flour-milling equipment in New Jersey, in the US, is just one of the 500 or so companies that have invested in Britain in the past year. Its plant on the Trafford Park Industrial Estate, in Manchester, will employ up to 50 people producing machines for the European market.

"For us, Britain was the obvious choice," says Mr Mark Adderley, the company's UK sales manager. "Language, location, the European market, financial assistance. Everything."

The flood of foreign investment of which Acrison is but a drop shows no sign of receding. More than 20 years after Sony, the Japanese electronics group, built an assembly factory in south Wales and 12 years after Nissan Motor, the Japanese car maker, broke ground at its site in Sunderland, Britain remains the favoured European country among non-European investors.

The long-standing flow of US investment, snpplemented by Japanese funds in the 1980s, has been boosted in the 1990s by capital from South Korea and Taiwan. In what would be the biggest inward investment so far, LG Electronics and LG Semiconductor, members of the LG grouping, are considering investing £1.5bn in two plants – one for microchips and the other for electronics components.

More recently, the UK's attractions as a manufacturing centre have generated investments from German companies, including the engineering group Siemens, which is building a semiconductor plant on Tyneside.

The UK's stock of inward investment has risen to £131bn in 1994 from £52bn in 1986, during the years when Mrs (now Baroness) Thatcher was campaigning to liberalise the economy and increase international trade and investment. Foreign-owned companies now account for a full 40 per cent of Britain's manufacturing exports and 32 per cent of manufacturing investment, according to data from the government's Invest in Britain Bureau.

The IBB sees no end to the flow. "It's at record levels," says Mr Andrew Frazer, chief executive. "The case load is 40 per cent higher than any previous figure."

Moreover, about 60 per cent of the investment inflow is re-investment, mainly the expansion of existing UK-based plants.

For non-European companies, the principal attraction of the UK is its position in the EU combined with its reputation as an easy place in which to do business.

The Englisb language, high-quality legal and financial services in the City, and a flexible labour force all play their part in winning investment. Only the US compares with Britain in its accessibility to foreign investors.

As Mr Shoichiro Toyoda, the chairman of Toyota Motor, the Japanese car maker that has a plant in Derbyshire, says: "The US and the UK are easy and open markets for us."

Investors express little concern about possible changes in economic policies in the event of a Labour victory at the next general election. Bnt they insist that their plans depend on Britain remaining an active member of the EU. As Mr Tim Eggar, the industry minister, says: "They [potential investors] make it very clear that they are investing in Europe and in the UK as a part of Europe."

The fact that the UK's labour costs are the lowest in western Europe, except for Spain, Portugal and Greece, is a distinct advantage. But investing companies say that this alone does not explain why Britain gets fully 40 per cent of the American and Japanese investment in the European Union. They point to ths flexibility of Britain's labour force and the range of skills available at reasonable cost, combined with good transport and other infrastructure.

Foreign companies are also attracted by the government grants availabla to support investment and job-creation. But they say that since all European countries now offer aid to potential investors, money alone rarely decides an issue.

The benefits of foreign investment have been so dramatic for Britain that even countries that were once reluctant to attract foreign companies – such as France – are busy seeking potential investors.

Foreign-owned companies now account for about 15 per cent of the UK's jobs. Bnt the advantages are not expressed in quantitative terms alone. The qualitative changes wrought by this investment, especially by Japanese motor companies, have been equally important.

Japanese executives have brought technical and managerial skills to the UK. They have put competitive pressure both on domestic rivals and on local suppliers, forcing them to upgrade their operations. As Mr Nicholas Crafts, professor of economic history at the London School of Economics, says, Japanese companies have been able to bring innovative techniques to the UK much more extensively than previous generations of inward investors, including US companies in the 1950s.

Mr Crafts argues that the Japanese were fortunate because their arrival coincided with the great upheaval in British industrial relations provoked by Mrs Thatcher: the UK was ripe for change.

The full benefits of these changes have yet to be felt. While many British companies have learned from the example of the Japanese in factory management and other innovations, others have yet to adapt. The competitive pressures on them will grow as the inward investors expand their businesses and encourage their domestic suppliers to invest to create local sources of key components.

For example, Samsung, the Korean group, has brought in six Korean suppliers to service its electronics plant in the north east.

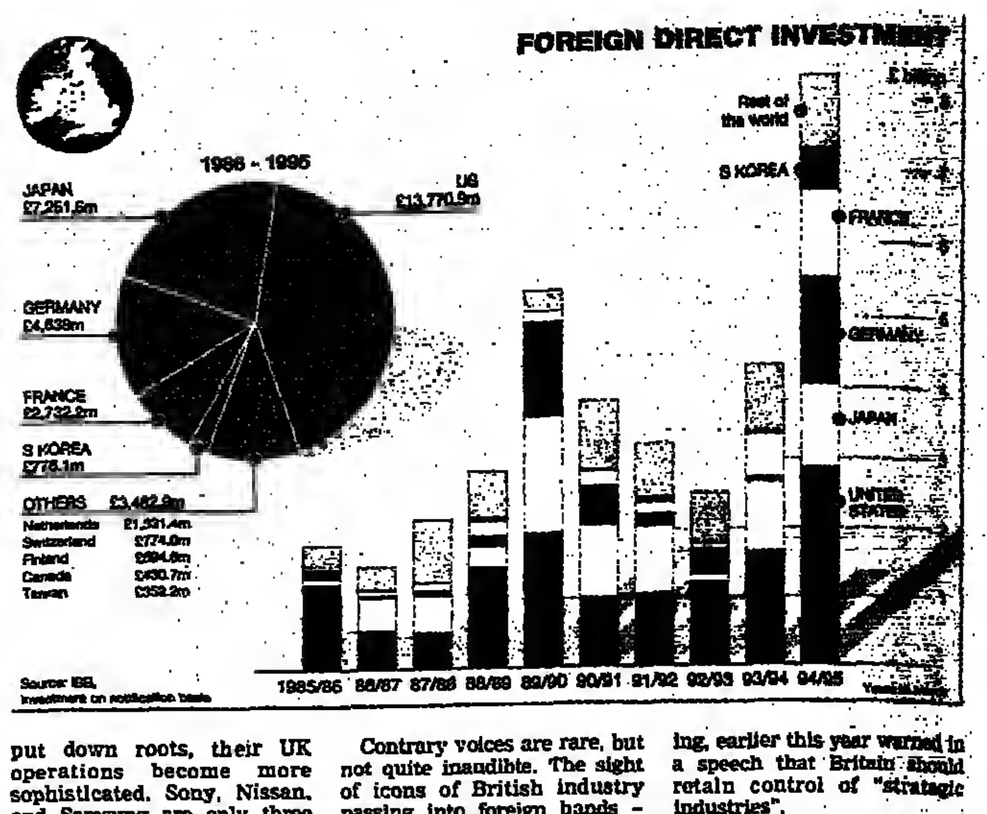
Also, as foreign companies put down roots, their UK operations become more sophisticated. Sony, Nissan, and Samsung are only three groups with research and development laboratories in Britain.

Such investments have largely dispelled concerns that foreign investment in assembly plants would lead to a "hollowing out" of British industry. As Mr Eggar says: "I would be worried if just manufacturing were done here. But almost all the evidence is that other operations also come here."

Contrary voices are rare, but not quite inaudible. The sight of icons of British industry passing into foreign hands – such as the purchase of Rover by BMW, the German motor group – still raises a few hackles. So does the prospect that essential services, notably electricity, might be controlled from overseas – as might have happened if Southern Company of the US had been allowed to merge with National Power. Sir William Barlow, the president of the Royal Academy of Engineering, earlier this year warned in a speech that Britain should retain control of "strategic industries".

But Sir William is in a minority. For most British businessmen and politicians, there is no going back on encouraging foreign trade and investment.

As Mr John Bridge, chairman of the Northern Development Company, the north's investment promotion agency, says: "Foreign investment is firmly embedded in the economy."



■ The regions of Britain • By Michael Cassell

Inward investors redraw the map

New interest in the old industrial heartlands could reverse the north-south divide

Brazenly peddling the promise of strong and sustained economic revival to an unbelieving public is an accepted part of political life. Given the historic and wide gulf in regional performance that forms part of the country's economic make-up, an added refinement in Britain is to guarantee good times for every corner of geography.

Yet, hopes for a more evenly balanced pattern of economic activity and a more equitable distribution of personal wealth remain unfulfilled.

Britain, it should be emphasised, is not alone in failing to achieve such economic perfection. In Italy, unemployment is three times higher in southern than in northern regions; Norway remains locked in an unending struggle to push economic activity further north; and there are far greater regional divisions in incomes per head in the US, France and Germany than in Britain.

But Britain's economic disparities have been marked and have proved stubborn. In an attempt to tackle them, there have been dramatic changes in regional industrial policy over the past decade.

The present government has abandoned the imposition of crude location controls on industry and the provision of automatic investment grants in favour of a strategy that concentrates on developing "indigenous potential".

Recent calls by MPs of all parties for an overhaul of regional policy have been dismissed by ministers, while Labour accuses the government of neglecting the issue.

Whatever the politicians' case, there remains a tendency to portray the country simply as an economic machine irreparably fractured between north and south; to the north lies a 19th century manufacturing graveyard, to the south an entrepreneurial starship.

The reality does not always bear out the portrayal. Long-term manufacturing decline, accelerated during the 1980s, laid waste to many former economic "hot spots" but the devastation was not confined to the north. The manufacturing hinterland of London was in parts as badly mauled as the industrial suburbs of Birmingham or Liverpool.

The difference was that the service industries that emerged in the 1980s were concentrated in the south and so came to the region's rescue. It has taken much longer elsewhere to adapt to structural changes, not least because of the widely varying quality of regional economic agencies and their past failure to work together.

More recently, however, it is the south that has borne the brunt of recession, while a huge wave of inward investment by overseas manufacturers has breathed new life into parts of Wales, Scotland and northern Ireland as well as some of the English regions.

The concentration of UK and EU regional funds on assisted areas has paid big dividends in attracting foreign manufacturing plant. About three quarters of Japanese-owned factories in the UK and more than four-fifths of the associated jobs have been created in assisted areas since the early 1980s.

High-tech, 21st century manufacturers nestle in Welsh valleys and Scottish glens. Clusters of commercial excellence are now as likely to congregate on Tyneside and in north Shropshire as along the Thames Valley.

Such has been the scale of inward investment that for the first time serious questions are being raised about the need for a national strategy to ensure benefits are geographically spread. In an intriguing reversal of old economic trends, the south-east could prove the biggest potential loser in a rare national success.

The economic map of Britain already contains some interesting surprises. The historic north-south gulf in house prices may remain largely intact despite the ravages of negative equity but nearly as many people in the north as the south own shares in privatised utilities. There are more top rate taxpayers in Cheshire and north Yorkshire than in well-heeled Wiltshire or east Sussex.

> The most popular target for criticism is lack of innovation

When skills shortages become a pressing problem for Newcastle industrialists and when the government redraws its grant aid map to include that part of south-east England closest to the continent, the old "north-south divide" simplicities can no longer apply.

There is also evidence that the gap between the richest and poorest parts of Britain is smaller than it has been for 20 years. At the height of the economic boom in the late 1980s disposable income in the south-east was more than 14 per cent above the national average. The figure is now down to less than 10 per cent and falling.

Regional disparities in unemployment widened during the 1980s but closed during the recession of the early 1990s and have remained narrow. The gap between the highest and lowest rates of regional unemployment in Britain – 4 per cent – is now only half the level recorded a decade ago.

Experience suggests, however, that as soon as one regional disparity is eliminated, another opens up. The real question is whether any sustainable improvement is being achieved in redressing longstanding economic imbalances in Britain's geography.

Some economists believe that economic convergence will continue steadily. The rising mobility of service industries may be one reason, suggesting that wide economic disparities are less likely. Changes in technology mean that jobs in the finance sector will appear as easily in Leeds as in London.

Others claim that without more fundamental policy changes the divide will persist and that any apparent narrowing in differences between regional economic performance merely reflects short-term swings in fortune between various types of economic activity. Another increasingly fashionable view is that the most powerful trend in the distribution of UK employment and economic activity is the shift away from the conurbations and big cities to smaller towns.

On some points, there appears to be consensus among economists as well as politicians. Previous agreement that industrial structure and the decline of traditional industries lay behind weak regional performance, has been replaced by increasing emphasis on supply-side factors. The most popular target for criticism is lack of innovation, said to arise from factors ranging from poor access to venture capital and low levels of R&D to loss of skilled manpower.

The government says the answer to issues such as these lies in its agenda for improved industrial competitiveness at local and regional levels. It points to the more effective targeting of regional aid and the creation of a national network of public and private sector agencies charged with delivering services locally to business. Local partnerships, it insists, offer the best chances of economic regeneration.

Labour equates years of regional economic weakness with the remote decision-making arising from ever more centralised government. Give the regions more autonomy and control over their own economic development, it says, and they will flourish.

After a one-year study, the independent regional policy commission set up by Labour has just made recommendations intended to complement the party's plans for regional government by local strategies for growth. Central to its proposals, which Labour will now consider, is a new framework intended to devolve to local level decisions governing the present £11bn annual spend on economic regeneration.

A strategy based on devolved, regional government and local responsibility for economic growth will, says Labour, promise a future in which issues such as job creation and the promotion of investment and training will be undertaken most effectively at grass-roots level.

Like the government, Labour also talks of partnership with private industry, though tensions have arisen at the top of the party over devising a framework for collaboration on capital projects between local councils and the private sector.

With a general election on the way, contestants of every political colour are about to claim they can help the regions win. Business, above all, will want to be sure promises of more constructive support do not degenerate into counter-productive intervention.

■ Science and research • By Clive Cookson

Flow of accolades dries up

British scientists still command global respect, but they are winning fewer prizes

The Nobel Prize announcements used to be an annual ritual of self-congratulation for British science. For four decades after the second world war, the UK won science prizes at an average rate of about one per year, and by 1985 it had built up an outstanding record of Nobel achievement second only to the far larger US.

Throughout the Thatcher years, science ministers used to quote the Nobel record as a defence against charges that government spending cuts were damaging research – to the irritation of critics who pointed out that the prizes were frequently awarded for work done several years or even decades previously.

But the flow dried up suddenly in the mid-1980s. Since Sir James Black won the medicine prize in 1988 for his drug discoveries, Britain has gained no new Nobel laureates in science. And now the critics are beginning to throw the Nobel figures back at the government.

Nobel prizes may be very visible and easy to count, but they are, of course, far from being a perfect indicator of the health of a nation's science. Output of scientific papers and patents is a more immediate and more comprehensive indicator, but much harder to assess.

The US-based Institute for Scientific Information specialises in assessing the international impact of research through "citation analysis" – the number of times scientific papers are cited by other researchers. This gives a more reassuring picture of the health of science in the UK.

Both the quality and quantity of Britain's basic research output have held up remarkably well over the past 15 years, according to the institute's analysis, even though the country's spending on science has failed to keep up with its international competitors. (The UK is the only advanced industrial nation that devotes a smaller proportion of gross domestic product to research and development now than it did in 1981.)

Comparing the performance of different scientific fields, there is little evidence of a decline in physics and engineering research in relation to chemistry and the life sciences, at the university level. In industry, however, companies based on chemistry and biology – above all, the pharmaceutical companies – have flourished on the world stage, while those based on physics and engineering have generally wilted.

Indeed, pharmaceuticals is the only science-based industry in which the UK still has a clutch of world-class competitors (Glaxo Wellcome, SmithKline Beecham and Zeneca).

> The UK industrial performance in electronics has been especially disappointing

According to the annual R&D Scoreboard published by the Department of Trade and Industry, drug companies accounted for 34 per cent of all UK corporate spending on R&D last year, compared with 25 per cent in 1991.

And they match the spending of pharmaceutical companies in other countries, unlike most other sectors of UK industry, which devote significantly less to R&D as a percentage of sales than their international competitors.

In contrast to pharmaceuticals, the UK industrial performance in electronics has been especially disappointing. Britain retains excellent centres of academic research in semiconductor physics but they tend now to collaborate with non-UK companies. For example, each of the two groups carrying out cutting-edge research in "quantum electronics" at Cambridge University's famous Cavendish Laboratory is working with a Japanese company – one with Hitachi, the other with Toshiba.

Technology occasionally catches the British political imagination. Although Harold Wilson's "white heat" message of the early 1960s remains the best example so far, there are signs that the information revolution will be an issue in the coming general election campaign. Among other things, the rival parties are competing with proposals to connect all schools to the Internet.

The health of basic science, as opposed to technology, never has been and never will be a big political issue. But the grassroots scientists' lobby group, Save British Science – founded 10 years ago in an outraged reaction to Thatcherite cuts and still going strong – will make sure that the issue is not ignored altogether.

Professor Denis Noble, the Oxford University physiologist who chairs the SBS policy group, says he sees little disagreement between the three main parties on the important issues of science policy but adds that "there is a growing gap between rhetoric and action".

"The rhetoric has changed," says Dr Matthew Freeman, a researcher at the Medical Research Council's Laboratory of Molecular Biology in Cambridge. "Ten years ago, politicians like Sir Keith Joseph were saying that the government had no business funding science at all. That would not be acceptable today."

At the same time, however, the shortfall in funding the science base has become worse. "What was a small problem to solve 10 years ago has grown into a major structural deficit," Professor Noble says.

Whatever happens over the next few years, the built-in strengths of British science will ensure that it continues to make an impact well beyond its contribution to the world's research budget – currently about 5 per cent.

Britain can certainly expect more Nobel prizewinners in the coming years but the celebrations are unlikely ever again to be an annual ritual, as they are in the US.

■ Communications • By Charles Batchelor

Mixed signals delay progress

Improvements to communications links require more coherent planning goals

Historical connections and a favourable position in the world's time zones have given Britain a pre-eminent position on the world airlines map. The opening of the Channel tunnel in 1994, meanwhile, has linked the country's rail network with continental Europe.

For a small and crowded island, efficient communications are essential both to stay in touch with the outside world and to maintain the quality of life at home. Yet traditionally transport has been regarded as dull and technical and not a subject from which political careers are made.

This has begun to change in recent years, however, as companies such as the National Freight Corporation, Associated British Ports and the British Airports Authority have been privatised.

But it is the privatisation of British Rail that has finally pushed transport near the top of the political agenda. Unprecedented cuts in the roads building programme have also contributed to an increasingly heated discussion of the direction of transport planning.

Proposals for a fifth terminal at London Heathrow, Europe's busiest airport, provide a handy microcosm of the wider debate, pitting environmentalists and local residents against commercial pressures for expansion.

The arguments for and against a fifth terminal are being played out in a public inquiry now half-way through its expected two-year term. BAA, the airports group, says that a fifth terminal is needed to increase capacity at the airport from 52m passengers a year to 80m.

Expanding airport capacity in the crowded south-east of England has been an issue for several decades – solutions proposed in the past have included an airport on the mud-flats of the Thames estuary – and remains a constant balancing act for the planning authorities.

Similar problems have contributed to delays in the construction of a high-speed rail link between the Channel tunnel and central London. The tunnel itself was completed in 1994 but a fast link on the British side of the Channel is not expected until 2003. The French, in contrast, completed a rail line to Paris in 1993.

The British link was held up by the lack of a co-ordinated plan for a tunnel and high speed link, and political pressure to avoid building it through sensitive constituencies. On the French side, the line went through thinly populated countryside in a part of France desperate for economic regeneration.

Earlier this year, however, the £3bn contract to build the link was awarded to a private consortium. Detailed plans are now being finalised and, parliamentary approval permitting, construction will begin in 1997.

The tunnel is already attracting passengers away from the airlines. Rail freight shipments, previously uneconomic because of the small distances involved in the UK, have now becoms viable for manufacturers moving goods to Spain, Italy and Germany.

Delays: the Channel tunnel was completed in 1994 but a fast link on the British side of the Channel is not expected until 2003

Picture by Tony Andrews

Handing over responsibility for building the 68-mila Channel tunnel rail link to a private consortium is only one aspect of the privatisation of the railways. Tbe flotation of Railtrack, the new owner of Britisb Rail's track, signalling and stations, in May marked a crucial stage in tbe disposal of rail assets.

The sale of the remaining passenger train operating franchises will take place over the next year or so, completing the break-up of BR into more than 80 separate compsnles. Although the quality of services will remain closely regulated and tha industry will still be dependent on substantial govarnment subsidles, future rail dsvetopments will be driven by commercial requirements.

Selling off the railways has been one of ths most controversial and complex of privatisations. But its supporters believe it will revitalise rail travel. Ths governmsnt has displayed a dogged determination to push ahead with the sale of the railways at a time when transport policy in other areas has been markad by indecision.

The launch by the government in December 1994 of "a great transport debate" awakened hopes that its traditional commitment to road building and the private car would be replaced by a more balanced policy. But lobbyists from all sides – business groups, environmentalists and motoring organisations – have expressed disappointment with the outcome, a discussion document or green paper entitled *Transport: The Way Forward*, publisbed in April.

This restated the problems and proposed involving local authorities more closaly in transport planning but provided no far-sighted strategy. It also avoided setting targets by which the success of policy could be measured.

Ths Britisb approach to transport planning remains fragmented. Individual projects such as Heathrow's Tarminal 5 and the Cbannel tunnal rail link may prove successful in attracting private finance – though the rail link requires an unexpectedly large injection of public money. But in the longer term, improving the quality of communications links, while reducing congestion and pollution, is likely to prove increasingly difficult without more coherent planning goals.

UK CONSTRUCTION RESEARCH

The gradual move back into the future

Building is very different from mass production and customers are conservative about new designs, writes Andrew Taylor

Constructioo is a very conservative industry. Innovation in design, materials and productioo techniques is pedestrian by comparison with most manufacturing sectors.

The way in which cars look, perform and are produced, for example, has changed dramatically over several decades. The designs and performance of many household consumer goods have altered significantly, too.

The buildings which the consumers inhabit, by comparison, heve changed much less. Building materials and construction techniques have been slow to change.

Construction companies and manufacturers have been criticised for failing to invest sufficiently in research to keep pace with tha changing demands of a modern world.

Critics eey the need to develop new products and techniques la likaly to become increasingly important as consumare aod governmaots become more concerned about the need to conserve energy and protect the environment.

Figures reported alsewhere in this survey reveal the low level of industry and government spending on construction research, although efforts ere being mada to improve this.

Tha environment department next month is expected to announce that £236m was spent on construction research in 1994. This represents less than half a per cent of the £50bn apent on construction output in Great Britain that year.

Private companies are estimated to have contributed 60 per cent of construction research spending in 1994, the bulk from materials and components manufacturers.

Tha eovironment departmeot figures exclude mooey spent on problem solving on individual projects. Nonetheless, they provide a good guide to the low level of investment by many companies.

The car industry, by comparison, spends roughly 5-7 per cent of turnover on research. The chemical industry, excluding pharmaceuticals, invests 3-5 per cent.

The reasons for the proportionately lower spending by the construction companies reflect several factors, not least the low profitability of the industry in recent years.

The fragmented nature of construction means that, even in good years, there are few large groups with resources available to fund eizable research budgets on their own. Few have the incentive to pursue research when they have no overall control over the design and construction of buildings.

Building, also, is very different from mass production. It involves a much higher degree of risk, conducted in the open air, and in varying ground conditions. Many customers are conservative and reluctant to accept innovative designs.

One of the biggest changes in the industry over the past decada has been the switch to prefabrication of many componants. Steel beams, pre-caet concreta sectioos, even self-contained lavatory "pods", are manufactured in factory conditions and delivered to site ready to be installed.

There are also some grounds for optimism. Taywood Engineering, part of Taylor Woodrow construction group, and one of the largest private sector construction research operations, says customers are becoming more innovative.

Mr Roger Blundell, director of research at Taywood says: "Customers like BAA, the airports authority, responsibla for a cootinuous building programme have become much more concerned about quality and full life cost of a building rather than simply opting for the lowest capital bid on each individual project.

"The environment department has launched joint campaigns with the industry to help companies like ours win a greater share of European Community grants, under initiatives like the Esprit Programme. The departmeot is also helping industry forge closer contacts with academic organisations so that limited research budgets can be better focused for commercial ends."

Teywood Engineering receives about £750,000 a year from its parent group to fund research which it is eble to use "as a lever" to lift its annual spending to about £5m backed by the EU and other grants. It has spent about £1m on developing IT systems to improve computer-aided design using three dimensional images.

The computer model traces the entire building programme from initial design, through all the component phases, to completion enabling cootractors and architects to test solutions before they are attempted on the construction site.

Other research, currently being pursued by the likes of Taywood and consulting engioeers Maunsall, includes tha development of plastic-based materials to replace staal as a reinforcement in concreta.

One of the most exciting areas of research into so-called Intelligent Buildings has been prompted by the electronics revolution. Sophisticated control systems enabla occupiers to determine temperature and lighting in individual rooms taking maximum benefit from natural aunlight, even automatically opening windows.

At the heart of British construction research efforts is the 75-years-old, government-controlled Building Research Establishment (BRE) which is shortly to be privatised. In 1994-95 it had a total income of £41.5m, of which £36m came from the government.

BRE bes an internatiooal reputation for the excellence of its research and advice including into fires, such as at Bradford football ground. It has evan built a full scale office building inside a former airship hangar in Bedfordshire in order to test new construction techniques aod its response to disasters.

Thare is great concern among private sector compenies and local authority customers that BRE should retain its independaoce and should not be broken up when it leaves the public sector.

The government's preferred option is to create a national centre for construction incorporating BRE. A business plan for the centre, including who would own it and how it would be funded is currently being drawn np by a construction research and innovation strategy panel representing the industry and its customers.

St Albans Abbey: a colour meter is used on 14th century wall paintings to test for fading. This will provide a reference for conservation in a BRE project starting next month Picture: BRE

■ **Design:** by David Lawson

Blowing both hot and cold

In recent years, the focus has changed from pure research to practical application

The fund manager got up to close a window behind his desk. An unseasonably warm spring afternoon had removed jackets, loosened ties and raised tempers. But traffic noise and dust sweeping into the office made conversation almost impossible. "You can see now why we demand air-conditioning," he said.

This dilemma has returned to haunt the construction industry as it recovers from recession. Buildings are beginning to rise again, and with the bricks and mortar comes the problem of how to balance the demands of creature comforts, running costs and new environmental standards.

When tower cranes last walked across city centres there was little debate. People like our sweaty fund manager who paid for development demanded maximum comfort for potential tenants. That meant air-conditioning, a notoriously energy-intensive solution. But when building ground to a halt, research continued into alternatives. "One advantage of the recession is that it gave us more time to study what we were designing," says Mr Tim Evans an associate with architect Sheppard Robson. Those investigations are now being fed into new designs.

Several landmark schemes have emerged even during this quiet period. The Ionica building, developed for the telecommunications company by St John's College, Cambridge, on its nearby business park, has become a totem. This uses existing technology in innovative ways to improve what is now called "staff comfort" rather than simply energy costs.

A good deal of research is also geared to monitoring whether, and how well, these energy-saving ideas work. "It takes hard evidence to fight for changes in the way we construct buildings," according to one of the designers, Mr Tim Battle.

He has watched the focus move from pure research into practical application over the last few years with some satisfaction, after his firm, Rybka Battle, played a big part in pushing forward the arguments for more energy-efficient, user-friendly buildings. Several current developments could be crucial to further advances.

The Building Research Establishment (BRE) has created its own test bed for the industry by constructing a complete office block at its Watford headquarters. The three-storey building is giving researchers chance to work on a live project right on their doorstep, according to BRE project manager Mr Mike Clift.

It includes innovations such as natural ventilation via computer-controlled opening windows and solar-powered stacks. But a particular advantage is the wave-shaped floor slab. This increases the concrete surface area, and thus the thermal

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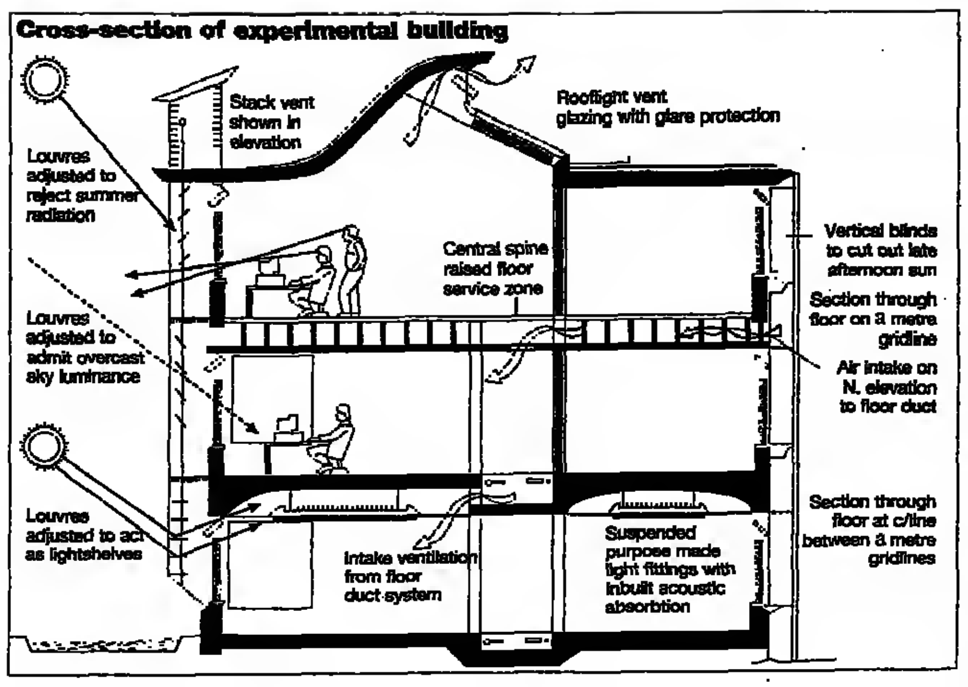
Cross-section of experimental building



Blowing hot and cold

Continued from Page I

mass. Fresh air is brought in to pass through the channels, avoiding problems with blockage by partitioning. In summer, the night-cooled slab reduces warm air temperatures while in winter, the flow can be warmed by underfloor heated water pipes.

This, along with other test systems such as low-energy lighting and external louvres to reflect sunlight aim to cut energy consumption by 30 per cent when the building is occupied later this year.

Those occupants will be as vital as the strain gauges and thermometers. They will provide interactive feedback on areas such as quality of light and comfort levels which researchers cannot determine from instruments. "One of the most crucial areas of research today is defining comfort," says Mr Battle. "If we can move to a looser fit, then a host of changes can be made." Tbe Building Services Resaarcb and Information Association is co-ordinating various projects aimed at this goal, while tha British Council for Offices has issued guidelines based on research into occupler demands.

The industry will be keeping a close watch on findings by the University of Westminster Research in Building Groop, which has won a £320,000 EC grant to monitor the BRE building.

Meanwhile, another piece of living research is going on in the beart of the City. The Helicon, a glazed office block rising over Finsbury Pavement, is important because it is a speculative development. Owner-occupiers willing to pay for new technology have set the pace for change but developers such as fund managers need to be convinced if the research is to gain wider application. If the Helicon, backed by London and Manchester Assurance, proves a commercial success, it will influence future schemes.

The £30m building programme is the culmination of several strands of research brought together by architects Sheppard Robson and environmental engineers Ove Arup. Most obvious are the louvred blinds, designed to control solar gain. "This is what is termed an active facade," says Mr Tim Evans, of Sheppard Robson, the architects. "It responds to the environment rsther than just ameliorating it as a passive facade would." In other words, the metal slats open and close in response to temperature and sunlight, sealing or opening a void between the office windows and an outer glazed skin. The combination of sbading and and ventilation of this void is intended to cut solar gain by about a third.

The technology was not based just on theoretical efficiency targets. "We do a great deal of research into what occupiers want from their workspaca," says Mr Evans. "They like to feel part of the outside world, so we aimed for transparency." Bnt occopiers are also increasingly demanding lower running costs. Research by property consultants Jones Lang Wootton shows that energy makes up more than a fifth of eervice charges for air-conditioned blocks. Together with heating and maintenance, this can reach more than £2 a sq ft, according to JLW's annual service charges report.

Other innovations include a low-energy system called chilled beams. This is fairly old technology but rarely used in the UK. Arup did extensive research via its international offices into examples across Europe, modifying the system to suit the Helicon. It is now being considered for a wide range of other buildings.

Another landmark scheme by Arup is the £57m Lloyds Registry of Shipping on Fenchurcb Street, managed by Richard Ellis and designed by Sir Richard Rodgers. This also involved detailed studies of climate, air quality and occupier needs. This resulted in a sealed-window system of air-conditioning, but it is significant that the designs allow for changes such as traffic restriction. Researchers have produced an optimistic view that our sweaty fund manager will one day be able to open his window withont being deafened by noise.

■ The intelligent building: by David Lawson

The art of gauging the right IQ

Research straddles building services and the way occupiers carry out their businesses

Intelligence and technology are often treated as synonymous in construction research, but this is a false image. An "intelligent building" will often use high technology but its IQ does not automatically rise by adding more electronics. Intelligence is gauged according to how well a structure satisfies the needs of its occupiers, according to DEGW, the designers and space planners. The firm has even created an IQ rating system based on the handling of three management areas – the tenants' business, the building and the interior spaces.

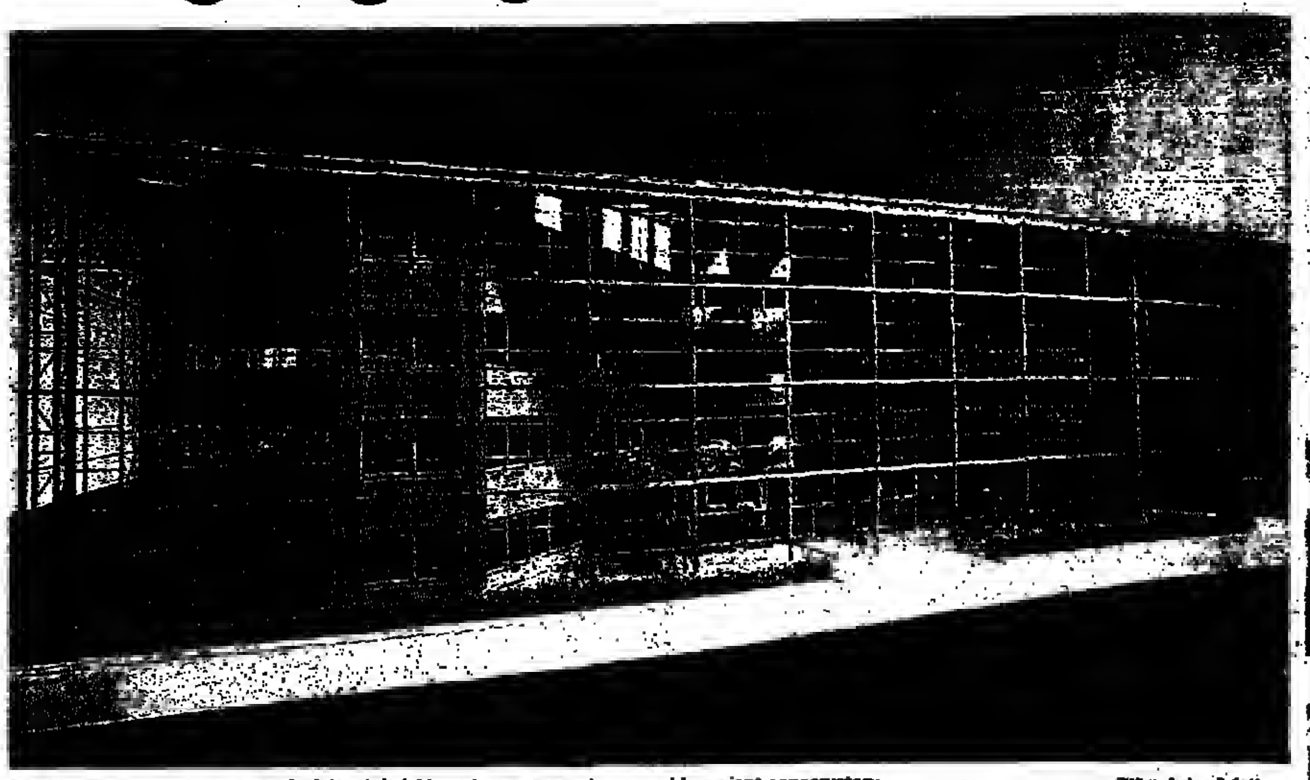
This stems from a Europe-wide study with Teknibank, published in 1992. Now the research initiative is being carried further afield. With Ove Arup and Northcroft, DEGW has been studying almost 20 buildings in south-east Asia and sponsors are being sought for similar research in Latin America.

This testing leans heavily on measures such as whether an occupier's activities match the technology. In other words, changing the tenant could turn out to be as much an option as raising the building's specifications.

Research therefore straddles the two areas of building services and the way occupiers carry ont their businesses. "The truly intelligent building is mostly a myth, but a lot of people are working bard towards achieving premises which increase productivity for the occupants while minimising impact on the environment," says Mr Mike Warner, a senior partner witb property consultants Richard Ellis.

He, for instance, is managing the creation of a new headquarters for Lloyd's Register of Shipping in the City, using research into leading-edge technology.

One of the most radical changes in modern building is not in the high-powered heart of London, however, but on the Stockley Business Park near Heathrow. Here Arup Associates have drawn on extensive research in Germany to create an entirely new idea about how to satisfy complex and



Stockley Park: in a reversal of principles, it is laid out in a cross and wrapped in a giant conservatory

Picture: Andrew Putler

conflicting demands in modern buildings.

Those providing funds demand air-conditioning to ensure comfort in all weathers bnt occupiers want low running costs, according to Mr James Burland of Arup. Staff like the idea of controlling personal conditions, such as by opening windows and maintaining contact with the outside world. Deep, square blocks with internal atriums – giant light wells – have solved some of these problems for the last 30 years, hut Arup have reversed this principle.

Instead of piercing the 92,000 sq ft block, it is laid out in a cross and wrapped in a giant conservatory. This "reinterprets the traditional wall," say the designers. The external glass facades keep out the weather, leaving internal ones to act as sunshades. Staff are close to light and can open windows into the conservatories without disturbing internal climate control.

The biggest problem faced by designers lies not in new buildings, however, bnt old ones. Occupiers are no longer interested in a vast stock of offices whicb are rapidly becoming obsolete. In central London alone, around a tenth of the stock is empty and three-quarters of this will struggle to find tenants because of low specifications. Even buildings put up 10 years ago are often unsuitable to modern office technology. Many will be demolished but researchers point out that this will be a huge waste of resources.

A multi-disciplinary team drawn from property consultants Knight Frank, architects Sheppard Robson, cost consultants Gardiner & Theobald and environmental specialists Rybka Battle, has been researching refurbishment as a solntion.

A detailed study was made of a 30-year-old City office block called Walker House to show the potential. Expansion outwards or upwards of tbe 111,000 sq ft building was ruled ont by lease and planning restrictions. The floor-to-floor beights are also less than 10ft, making the task of threading in services such as cabling difficult. But a variety of innovations in wiring, ventilation and otber services would restore demand and triple rent values to £35 a sq ft.

Listed buildings are the biggest problem. England alone has more than 500,000 and they can face almost impossibla restrictions. Technical solutions investigated hy DEGW and Lucent Technologies in a recent researcb project include atructured cabling, enabling offices to handle "churn" rates under wbich up to 60 per cent of desks are moved around each year. The research also provided "adaptation" guidelines, including measures such as impact of particular solutions on a building's appearance.

Again, any structural changes should be linked to bow occupiers use offices. DEGW has been involved in an 18-month study with the Building Research Establishment called New Environments for Working which has looked at the potential impact of new technology and changes such as bome-working. These will have an important impact on offices geared to 9-5 working.

As part of the study, DEGW developed a cost model with Procord, the facilities management consultant, for different kinds of work, matching types of business with types of building.

These basically boil down to four classes of activity, labelled the den, tha club, the hive and the cell, depending on how staff interact and how much autonomy each has. This sort of categorisation helps determine whetber users are matched to the premises – in other words, how intelligent the property is.

In bistoric buildings, for instance, DEGW and Lucent found that terraced houses were most suitable for professionals euch as solicitors, which worked in club and cell structures. Warehouses, on the other hand, have the space to take on a much wider range of work styles, including open plan and bot-desking.

Tecbnology can also be matched to premises. The "cordless" office, based on mobile phones and wireless computers, is suited to buildings where the interiors cannot be hacked around.

Old industrial and commercial premises, on the other hand, often have planning restrictions imposed only on the outside, and are more suited to fitting of structured cabling, says the report.

This matching of structure, business activities and technology is now seen as a far more important focus of research than simply inventing and installing new widgets. As one designer says: "The computer on someone's desk is, in fact, less intelligent in building terms than a catch next to the user's elbow enabling them to open the window."

■ Construction equipment: by David Traherne

Britain as a centre of quality

There is concern about the level of spending on research and development

When Daewoo, the South Korean industrial giant, decided to expand into the European constrnction machinery market with a range of tracked excavators in the 1980s, the contract to "europeanise" the Korean-built earthmovers was scooped by a small team of design engineers in south Wales.

The group had previously worked for Hymac – for many years one of the UK's best known excavator manufacturers – but set up on their own when the company changed hands. Ironically, Daewoo is now well established in Europe. It has a factory in Belgium and is ranked number five in the UK with a market share close to 10 per cent.

Hymac, by contrast, struggled under a succession of owners – including Brown Group International, the privately-owned machinery group which collapsed in 1990 – only to cease production some three years ago when the current owners, a privately-owned business in Northern Ireland, closed Hymac's small assembly plant in the Midlands.

Although production may one day be revived, possibly in south America, Hymac is unlikely to be more than a small supplier to niche markets.

The demise of Hymac compared with Daewoo's experience illustrates not only the pressures which can crush a manufacturer bnt also the quality of the UK's research and design base.

When Komatsu, the Japanese-based international construction machinery manufacturer, for example, opted to set up its first research and design centre outside Japan, the department was established at the group's excavator factory in Birtley, Durham.

Hymac was dogged by lack of investment and failed to become an international participant which limited sales potential and prevented the company from developing into a volume producer. Both factors are important but machinery manufacturers increasingly are being pushed not only to broaden the range of equipment they offer but also to shorten the time it takes to bring products to market.

Mr Pat Dooey, commercial director of Powerscreen International agrees. The quoted Northern Ireland-based company makes crushing and screening equipment for quarries, mines and demolition sites. In 1991, it acquired Matbro, a small Gloucestershire-based manufacturer of telescopic handlers.

Powerscreen has also reshaped the company into a volume supplier using its financial muscle and aggressive research and development techniques. This is a recipe which has made many in the industry sit up and take notice.

"When we acquired Matbro, it was a one-product company selling a telescopic handler into agriculture," says Mr Dooey. Today, the company has five products and recently launched a machine tailor-made for the construction industry, a market which generally requires higher lift specifications.

Turnover, about £7.5m at the time of the takeover, surged to £63m in 1995-96 while exports have increased from 2 per cent to 41 per cent of sales. The company has also signed a prestigious badging arrangement with John Deere, the US machinery manufacturer, which now sells two models under its own name.

Matbro spends about 3 per cent of turnover on research and development – the construction equipment sector averages between 3-8 per cent says Mr David Philips, managing director of Off-Highway Research – and has adopted what Mr Dooey describes as a "basic" approach to engineering. "A good engineer is a good GP [general practitioner] but pulls in specialists along the way," he says. Mr Dooey believes Powerscreen's engineers take a "fresh and interesting approach" to their work. He cites the time Matbro was developing a small telescopic handler aimed at the cheaper end of the agriculture market. "Our R&D engineers literally lived on a farm to fully understand the needs of the farmer," he says.

The company has tripled the size of its research department since 1991 but where possible it avoids poaching staff from large organisations in the belief that they often bring with them "big company" philosophy. "At Matbro it is not unusual to find the chief engineer on the shop floor fitting a component," says Mr Dooey.

> Companies have made a point of developing links with the academic world

Both Matbro and its parent company have made a point of developing links with the academic world, boasting ties with Queen's University in Belfast and colleges on the mainland.

Centres of excellence play an important role across the sector. When Caterpillar, the world's largest manufacturer of earthmoving machinery wanted to develop a virtual reality system to evaluate performance of design it turned to the National Centre for Supercomputing Applications at the University of Illinois.

Mr Bob Pendlebury, engineering and research director at JCB, the famous construction machinery manufacturer, is visiting professor at Loughborough University.

JCB has not only employed a number of graduates from Loughborough but also involves students in research projects. "We've got some working on a project at the moment which involves electronics interfacing with hydraulics," he says.

JCB has also forged links with the Fluid Power Centre at the University of Bath and sits on its industrial advisory group. Professor Cliff Burrows, who has headed the centre for the last nine years, believes firmly in technology transfer between industry and the academic world. "Our research must come from the concerns of industry," he says.

His concerns, however, include the level of spending on research and development. A few years ago, 300 people a year from industry attended the centre's modular courses. More recently the numbers have halved. Like Matbro, JCB has also been pushing to reduce the time it takes to develop new products.

"Over the last five years, we have reduced average lead times from between 36-48 months to about 18 months," says Mr Pendlebury.

The company makes a diverse range of equipment but decided a few years ago to form an alliance with Sumitomo, an established Japanese excavator manufacturer, rather than develop a modern range itself.

This JCB-SCM joint venture, now makes excavators in the UK where it is market leader. "The resources it would have taken to design our own range would have meant taking our eye off the ball," he says.

The broad range of machinery made by JCB enables the company to take advantage of cross fertilisation – grafting ideas from one product range onto another. The four-wheel-steer arrangement used on the company's backhoe loader, for example, was adopted from its telescopic handlers.

JCB has banished the old style practice of designing, prototyping and testing products before releasing details to production teams in favour of simultaneous engineering. "Every functional group including manufacturing, purchase and cost estimation are involved early," says Mr Pendlebury.

This approach enables JCB to make tooling sooner and give component suppliers more notice.

But the method does involve risks. For example, if a design has to be changed significantly as testing progresses, the tooling – already made under the new schedule – may have to be modified or even thrown away.

JCB spends 4-5 per cent of turnover on researcb and development, depending on the type of project, but so far has steered clear of innovative technology like virtual reality. "We've thought about it but I think it's a bit of a gimmick. There are better things for us," says Mr Pendlebury.

The company has made a significant investment in data acquisition equipment whicb helps compress 10 years of a machine's life into six months. "We will soon be able to move from measuring 24 points on a machine to 250," says Mr Pendlebury, who points out that this can take a week off the design cycle for one model.

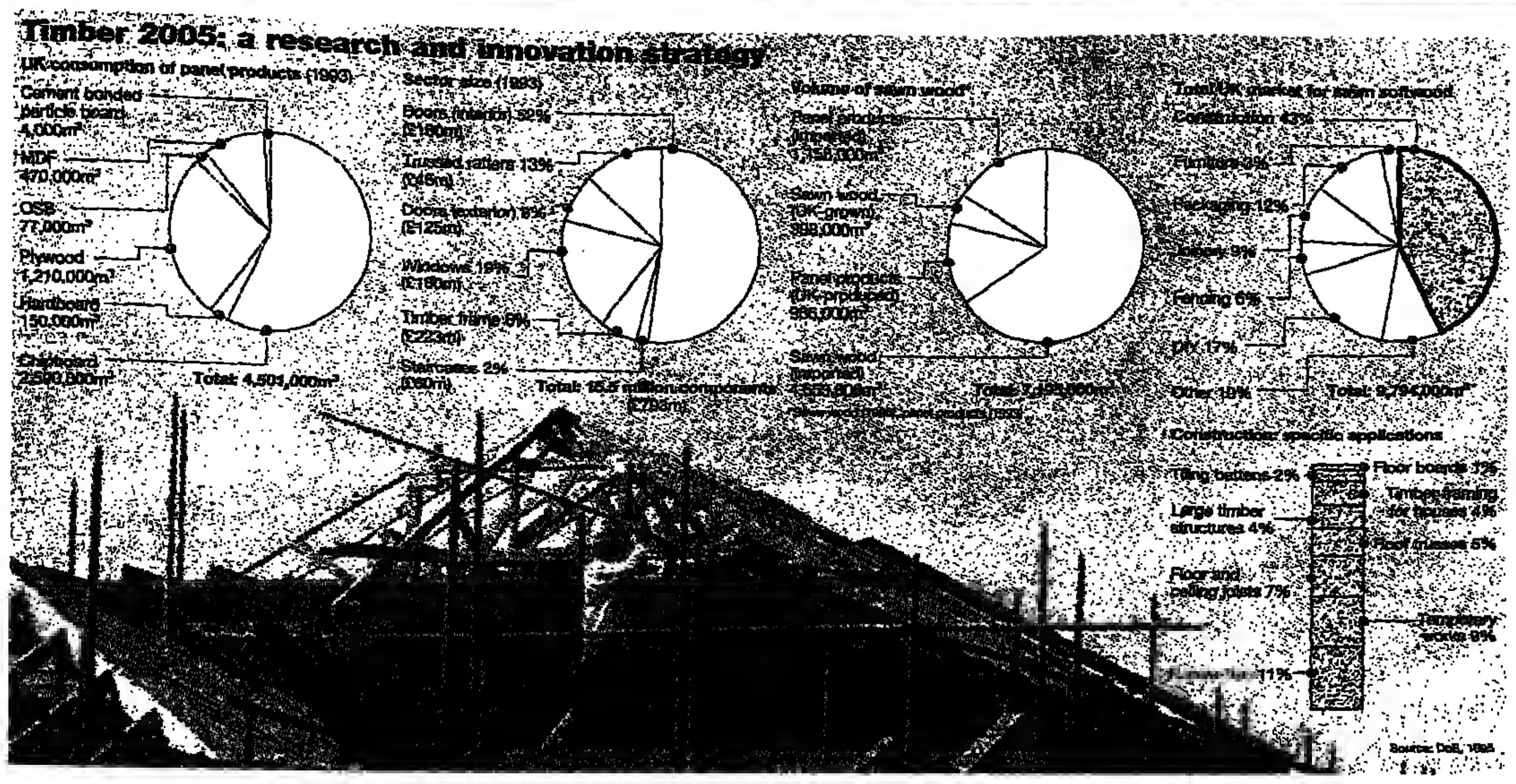
However, only so much can be done in the test chamber. When a new machine is being developed or an existing model, upgraded cuetomer feedback is essential. "We have regular interface meetings with customers and closaly monitor warranty and parts data," saya Mr Pendlebury.

One recent customer survey in the US identified a need to change the seat on a machine prototype. Construction machinery operators in the US are apparently on average beavier than their European counterparts.

A similar situation arose a few years ago when a range of US-built skidsteer loaders were launched in the UK. It soon became clear that changes had to be made to the seat belts to take account of the generally slimmer UK operotors. Whether years of recession in the UK have taken their toll on construction workars' waistbands remains to be seen. If the industry's fortunes change it could be back to the drawing board.

Matbro TS 280: in developing the telescopic handler, engineers lived on a farm to understand special needs

Daewoo: the South Korean company decided to expand into the European construction market



■ **New materials:** by Martin Spring

Waiting in the wings for recovery

The quest is for smart materials that adapt to changes in the environment

Prospects for a Brave New World of innovative building materials are not particularly bright in Britain at present. One reason is that, with the building industry still in recession, research and development take a low priority. In addition, the pendulum of public opinion has swung back from new to traditional architecture and technology.

That said, there is still a gamut of new materials and technologies waiting in the sidelines and ready to be activated if and when building construction picks up again.

As its products are invariably large in scale and installed to last for years or decades, the building industry tends to borrow new materials and technologies that have already been tried and tested at less expense and risk in other smaller-scale industries. Most current product innovations are adaptations of existing materials, but a few are exciting new technologies.

For the technical wizards of the construction industry, the current holy grail is smart materials. These are materials that react physically and automatically when external conditions change. Mr Steven Groak, head of research and development at structural engineers Ove Arup & Partners, says: "We will increasingly see the use of inert materials with the behaviour of live, organic materials."

The attraction of smart materials is that they enable building elements to adapt automatically to changing environmental conditions. Mr Groak uses the analogy of Gor-etex clothing fabrics that "breathe" by letting water vapour pass through while blocking water liquid. "In fifty years time, external walls will incorporate selective membranes that will be sensitive to fluctuations in temperature and humidity and automatically control natural ventilation," he predicts. "This should be useful in saving energy."

A smart material that is closer at hand is electrochromic glass, which switches from clear to obscure states when electrically activated, much like the liquid crystal display of a pocket calculator.

In the stylish new offices of a London advertising agency, partition panels incorporating "Priva-Lite" glass manufactured by Saint-Gobain Glass have been installed that allow the occupants to switch from clear views and daylight to privacy behind an obscure screen at the touch of a button.

A few years further off is photochromic glass, which becomes darker or lighter according to the intensity of light falling on it. Photochromic glasses are already used – at a price – in spectacles and sun roofs of cars. If incorporated into cladding panels, they could theoretically control the glare and heat from the sun entering a building.

Other smart materials now under experimentation in north America include so-called self-healing concrete. Fibres containing liquid resin are cast within a concrete structure so that, if the structure begins to fail, the fibres split open and the resin seeps out to re-bond the cracking concrete.

Even microbes can be smart

> The use of plastics or polymers is steadily growing in the industry

and potentially useful in buildings, according to Mr Groak. Bacteria have already been scientifically exploited by Arup in reclaiming contaminated land masses.

The use of plastics or polymers is steadily growing in the building industry. The latest advance on glass-reinforced plastic, which has been used for decades in cladding panels, is fibre-reinforced plastics or advanced composites, in which the fibres are precisely orientated for maximum strength in a similar manner to the steel bars in reinforced concrete.

This gives fibre-reinforced plastic a strength-to-weight ratio four times better than steel and it has the added benefit of being self-finishing and nearly maintenance-free.

The main drawback is the expense entailed in complex engineering and intricate shapes of the mounds. A handful of lightweight bridges have already been constructed in Britain using fibre-reinforced plastic to designs by the plastics division of the structural engineer, Maunsell. The largest to date is a cable-stayed footbridge in Aberfeldy, Scotland, which has a total length of 113m yet weighs only 23 tonnes.

Timber, one of the oldest traditional building materials, is rapidly regaining popularity, partly for its attractiveness as a natural material that is warm to the touch, and partly because it can be one of the few renewable, eco-friendly building materials.

Ironically, timber and resin-bonded timber composites are also becoming highly engineered to produce more efficient structural members. Current advanced timber composites include parallel strand lumber, in which timber strands and fibres are precisely orientated – just as in fibre-reinforced plastics.

Increasing green concerns are boosting the use of recycled materials. Not only can building products be recycled in their original form, as with bricks or internal joinery, but they can also be reconstituted. Metals have always been reconstituted, and this is now also happening with concrete and even plastics. PVCu window frames are now being manufactured with an internal core of recycled plastic

As in other industries, the computer is having a profound impact on the design and manufacture of building components. With the use of advanced computer-aided design and manufacturing techniques, complex three-dimensional shapes can be economically cut and fabricated in virtually any building material.

This enables building elements – whether in steel, plastic, wood or concrete – to take elaborate shapes, while precision laser techniques of cutting and setting out means they can be assembled with finer tolerances and virtually seamless joints. In the work of the avante-garde American architect, Frank Gehry, whole buildings taks on the appearance of free-form sculpture – an architectural style virtually impossible to realise without the computer.

Finally, advanced modern technology is coming to the rescue of ancient buildings. High-tech methods of non-destructive testing, including X-rays, radar, ultrasonics, endoscopy, spectometry and photogrammetry, are the building industry's answer to keyhole surgery. They enable buildings to be precisely surveyed and scientifically analysed without damage.

Martin Spring is architectural editor of Building *magazine*

■ **Site investigation:** by Kristina Smith

Precautions against nasty surprises

Technology has had to match the pace of the fast growing market of derelict land

Thirty years ago near Bury St Edmunds town centre, construction of a new housing estate had to stop when gaping holes appeared where several of the gardens had been.

No one had bothered to check what was underneath the plot. If they had, they would have found a maze of old chalk mines dating back a hundred years. Things have improved since then – but maybe not enough. Contractors still come across surprises – and rarely are they happy ones.

The £50m Guildhall Yard East project for the Corporation of London was held up for three and a half years after Roman and Saxon remains were unearthed and the archaeologists moved in to fork through the dirt beneath the site.

Residents near the new Bermondsey tube station on the £2bn Jubilee Line Extension were a little alarmed to see holes appearing in the streets – the reason was there were voids caused by backfilling in the 1960s which no one realised were there.

Cases such as these come as no surprise to Dr Stuart Littlejohn of Bradford University who heads a national steering group to look into site investigation in the UK. He found that the average amount of cash spent on ground investigation was a mere 0.2 per cent of the total contract value.

And this false economy at the outset tells later on, says Dr Littlejohn. "By far the majority of claims is linked to unforeseen ground conditions. Ground is the element in every construction project which carries the greatest risk," he says.

A site investigation usually starts with a desk study which looks at any records relating to the land. This can turn up things like what the geology is likely to be, possible contaminants due to previous uses of the site and information from any earlier investigations.

But some companies will not even invest in a desk study. Dr Littlejohn gives the example of a factory building which had to be demolished when the tip material it was built on started settling. The developers had assumed that the tip had been there for decades and had consolidated. In fact it had only been there for a year or two.

The Environment Act, when in place, should put paid to such situations. It will cover who is responsible for contaminated land – the contaminator or failing that the owner – and how they should go about dealing with it. So-called "brown field" sites – derelict land which had previously been developed – will become more and more important to developers over the next 10 to 20 years. And people will be forced to discover what nasties are lurking beneath the surface.

Because of this fast growing market, ground investigation for contaminated land is where many of the technology advances are happening at the moment. Traditional methods like trial pits (in effect, digging a big hole and looking at what comes out of it) and bore holes

> Geophysical surveys, which measure signals put into the ground, are coming to the fore

(making deep, narrow-diameter holes and examining the core) may not be appropriate on brown field sites. You could be stirring up all sorts of unpleasant materials: heavy metals, chemicals from dye works, methane from landfill sites and by-products from gas works.

So geophysical surveys, which do not disturb the ground, are coming to the fore. The basic principle is that you put a signal into the ground and then collect what is reflected back. The signal may be electromagnetic radiation or electricity.

These methods in themselves are not new, says Mr Andy Brown, consultant with Earth Science Systems which hires out geophysical survey equipment and advises clients on how to go about site investigations. The interpretation of the results has come on in leaps and bounds. "The software has really developed," he says. "The area that has progressed is in what you can do with the results rather than the hardware."

One such method is resistivity surveys. These involve passing electricity between two electrodes on the ground and then measuring the resistance between two other electrodes.

At Birmingham University, Dr Ron Barker has been working for a number of years on electrical imaging, or tomography, and three years ago the technique reached the commercial stage.

Several UK companies now offer the service.

Electrical imaging involves measuring the resistivity between two electrodes and gradually increasing their separation. Software can then change the results into two dimensional – or even three dimensional – maps through cross-sections of the ground. These rainbow coloured maps look very pretty, but to the trained eye they can reveal numerous things about the type of ground and what it contains.

The technique can be used in many applications: monitoring landfill sites, contamination studies, identifying rock levels in highway studies or monitoring the plastic sheeting which lines new landfill sites to see how it performs over its life.

There are other methods which have been developed specifically with the ever-increasing market for brown field surveys in mind which involve physically pushing instruments – rather than waves – into the ground.

Fugro specialises in such techniques – one is the Laser Induced Fluorescence Cone (Lif) which the company has only been using for 18 months. Lif is a development of the standard Cone Penetration Testing (CPT). CPT involves pushing a cone with a friction sleeve into the ground and measuring the resistance using strain gauges within the sleeve which are connected to the surface by cables.

In the new method there is a little window at the base of the penetrometer. Laser light is sent to the window by fibre optic and the reflected light is brought back. Mr David Youdan, Fugro's divisional head of structural monitoring, explains: "Medium to high density hydrocarbons fluoresce," he says. "The frequency and duration across the spectrum means we can differentiate between – for example – tar, unleaded petrol, leaded petrol, various oils." And the results can be seen there and then on site.

But however wonderful these new techniques, they have to be correctly used and the results correctly interpreted. Dr Littlejohn urges clients to put an expert on the job – not a civil or structural engineer, but a geotechnical specialist.

Kristina Smith is a reporter with Construction News

■ **Providers:** by James Macneil

On shaky foundations

Both researchers and the industry need to co-operate on long-term objectives

Construction research organisations are facing an uncertain future. After five years of recession, the amount of money the sector spends on research has shrunk and end users are calling for more relevant and efficient use of the limited funds available. And, at the same time as customers apply pressure, the government is planning to sell the Building Research Establishment (BRE), a traditional stalwart of research work in the industry.

Organisations involved in R&D in the construction industry reflect the short term and specialised interests of the companies, academic and trade associations and establishments that make the industry up. These include the government-owned BRE which supports the government's construction programme and construction-related legislation, a diverse university sector known for the quality but not necessarily the relevance of its output, trade and research associations that focus their efforts on distinct sectors and materials, and construction contractors and consultants.

According to Department of Environment figures due out in next month, £236m was spent on construction research in 1994. Private companies contributed 80 per cent of this total. The bulk of this work was carried out by materials manufacturers and equipment developers as part of product development programmes.

Construction contractors only contributed £9m to research while consultants contributed £10m. A handful of big clients spent around £8m. However, this figure excludes money spent solving problems arising on individual projects which is notoriously difficult to calculate as it often not recorded. Estimates of how much such site-related research costs range between £22m and £50m per annum.

The government's BRE plays a leading part in the sector. In 1994-95 it had a total income of £41.5m, of which £36m came from the government. For the past 75 years, it has been responsible for construction research in support of legislation such as building regulations and has also played a part in investigating building-related disasters such as the Bradford football ground fire.

It is renowned worldwide as a centre of excellence and for its unique testing facilities, such as a full size building frame used for strength tests housed in a former airship hangar in Bedfordshire.

But, the BRE also has its critics. Its lack of success in winning commercial research commissions has lead some people to suggest that it could benefit from more commercial management (see box).

According to the DoE report, university research accounts for £54m of research. This has risen by 64 per cent since 1990. Much of this increase can be attributed to a change in the attitudes of academics to research. Whereas previously they worked in isolation from industry, many government-sponsored research programmes, such as the DoE's Partners in Technology (PiT) scheme, require bids from joint ventures between university researchers and commercial companies.

Despite this, the view still persists in the industry that academics take on research projects to further their own careers, rather than meet the needs of the industry. Dr David Gann, a senior fellow with the Science Policy Research Unit at the University of Sussex says that this perception is simplistic. "The industry thinks it knows best while researchers want to do things that industry can't use. Both sides have to have similar expectations or you won't get the value of the research flowing through to the industry," he says.

Research associations made up of special interest groups, such as the Timber Research and Development Association and the Building Services Research and Innovation Association in the construction industry, also have a significant role to play.

The most wide-ranging of these groups, the Construction Industry Research and Innovation Association, acts as a club where members pool financial resources to sponsor projects relevant to their work. In return they get to see the results before they are published.

In the past two years, industry leaders have taken a number of steps to encourage these disparate groups to work together. Research funding schemes such as the DoE and Engineering and Physical Sciences Research Council's Innovative Manufacturing Initiative programme and the DoE's PiT scheme require funds to be matched from private sources. This has lead to consortia being formed between researchers and the private sector. Private sector companies often make their contributions in kind, counting the hours spent working on the research by staff as part of matching funds.

Senior figures on the research side of the industry see this as the continuing challenge for the industry. "We have to look at how the industry can be motivated to take up research findings," says Mr Richard Hodkinson, DMI's construction programme manager. "Taking risks by innovating does not necessarily fit with the conventional contractual structure of the industry."

James Macneil is technology editor of Building *magazine*

Construction R&D income (£m)

	1990	1992	1994
Companies' in-house facilities	96	82	97
(of which construction companies	18	14	9
Universities	33	39	54
Building Research Establishment	26	31	34
Transport Research Laboratory	7	9	8
Consultants	10	12	10
Research organisations	26	32	33
TOTAL	198	215	236

Source: Department of Environment

Future poised in the balance

The sale of the Building Research Establishment, one of the government's lesser known privatisations, could be the catalyst for a rationalisation of the research provision in the construction industry.

Industry leaders are pushing for the BRE to become the first research organisation to come under the wing of a proposed National Construction Centre.

This is to be an organisation designed to promote innovation in the traditionally conservative construction industry.

Proponents of the NCC argue that the centre will help co-ordinate research effort in the construction industry.

This would build on the DoE's efforts to date to engender a more co-ordinated approach to research through the creation of guidelines for the content of government-funded research initiatives.

The consultants Coopers and Lybrand have been appointed to propose an effective structure for the NCC.

This is to be put to the DoE in the autumn.

Should the idea prove unviable then the organisation will be sold to a private bidder.

If income from the government was guaranteed, this could prove a lucrative purchase.

However, opponents of a sale to the private sector say that if the organisation were to be broken up, then the industry would suffer from the loss of its independent views.

James Macneil

Safety: by David Taylor

Fire – the vital area of research

Modern methods are starting to unlock the secrets of this elusive and destructive element

In April this year, a ball of fire swept through Düsseldorf's airport terminal building, destroying nearly half of it and killing 16 people. In the outcry that followed, German state prosecutors pointed the finger at a maintenance company and its subcontractor.

The cause of the first was quickly identified. But what is more shocking than the alleged negligence of the welders who sparked the blaze, is that the chain of events which followed, culminating in the deaths and injuries in the arrivals hall, had been accurately predicted by scientists in the UK.

"It appears that sparks ignited some cable insulation and that smoke and fumes entered the air-conditioning system and was driven down to floor level. We showed two or three years ago that air-conditioning will drive smoke down to floor level if it is left on after a fire has started," says Mr Peter Johnson, fire safety engineer with London-based consultants Ove Arup.

Fire is probably the most important area of safety research in the construction industry today. Several recent fires – including those at the Sun Valley food processing factory in which two firefighters died and more recently the supermarket fire near Bristol which killed the first British woman firefighter to die on duty – have focused attention on the problem.

At Düsseldorf, nearly all the deaths and injuries were caused by inhalation of toxic fumes. If the knowledge gained by Arup's research had been available to the designers of the airport, systems could have been provided which might have saved lives.

But fire is also at the top of the research agenda because modern methods are beginning to unlock some of the secrets of this most elusive and destructive element. Mr Johnson and his colleagues at Ove Arup had studied several hypothetical fires of the type that swept through Düsseldorf airport, using a technique known as computational fluid dynamic (CFD) analysis.

"CFD enables us to work out how a fire is likely to spread within large enclosed spaces and in complicated spaces," says Mr Johnson. "Computer modelling has made a tremendous difference, although the skill of the analyst using the tool is very important."

Mr Johnson says that the arrival of CFD has taken fire safety engineering on by leaps and bounds. "It allows us to move away from building codes based on prescriptive rules towards new ones based on performance requirements."

Fire safety engineering, although still developing, is already an established discipline. Its philosophy is simple: it is to reduce costs and improve efficiency of design while maintaining adequate, and appropriate, levels of safety. Current building codes require fire doors, sprinklers and similar measures, to be designed as failsafe methods of reducing the likelihood of fire being propagated in a building. Fire safety engineering allows such measures to be used only where they are actually needed – with resulting cost benefits.

> The philosophy is to reduce costs and improve design efficiency

The proven benefits of this approach will culminate in the introduction, around the turn of the century, of new Eurocodes based on fire safety engineering principles to replace the current prescriptive ones.

CFD allows fire safety engineers to replicate a real fire inside a real building. But at the Building Research Establishment's large test facility – an eight-storey steel framed building erected inside the cavernous hangar at Cardington that used to house the R101 airship – this is being done for real.

For the past two or three years, the Cardington facility has provided a unique opportunity to study building fires under real conditions. The tests themselves have ranged from very controlled fires on specific elements of the structure to a fire started in a real office, furnished especially for the purpose with desks, chairs, carpets, computers and all the other junk you would expect to find.

Tests like this provide an invaluable back-up to the computerised models, says Prof Haig Galvanessian of the BRE's Safety of Structures department. "There have been tremendous advances in analysis methods using computer modelling," says Prof Galvanessian, "but we need to check these against real tests."

It will be two or three years before all the results from these tests are available. But progress so far has been sufficiently encouraging for the BRE to plan subsequent similar projects for timber-framed and concrete frame structures – funds permitting, of course. The Cardington project has provided a unique opportunity to study a real structure's response to fire – as well as other loads, stresses and strains.

Now, as this project reaches its conclusion, fire research will continue at a new £3m "burn hall" opened this month at BRE headquarters in Garston.

"Experiments here will follow more traditional lines than those at Cardington," says Mr Martin Shipp, head of the fires special interest group at BRE. Among the projects researchers here will be carrying out are the study of smoke movement in open spaces; the effects of blast on different cladding materials and the combustion of insulation materials used for electrical cables – the source of the toxic fumes which killed so many at Düsseldorf.

David Taylor is features editor with Construction News

Righting wrongs

"Better reliability is the direction in which we're all now starting to move, and it's very much what we're working on with new methods of modular construction and off-site fabrication," says Mr Peter Head, director of engineering consultants Maunsell of south London.

But safety research is not just about finding new methods and materials. It is also about correcting errors made in the past. Last month, the Highways Agency revealed details of how it intends to tackle the widespread deterioration of the concrete supports carrying the M4 motorway over Chiswick Flyover.

The problem is well understood. De-icing salts from the carriageway have penetrated the concrete structure below and started to attack the steel reinforcements within. The ensuing corrosion not only eats away the reinforcement, but causes the concrete to crack and flake.

The problem will take many millions of pounds to solve and up to 10 years to remedy but no one will know for sure until work by the Transport Research Laboratory is complete. Contractors will soon start work on the removal of one complete concrete crosshead beam which TRL scientists will then subject to a battery of chemical, physical and ultrasound tests in their quest for a solution.

"There are huge concerns about structural safety," says Mr Head. "When people designed those concrete structures, they thought they'd last forever. Now we know they won't so we design in different ways. That's why, on the second Severn Bridge, all the prestressing tendons are external to the concrete envelope. When they start to deteriorate, they can be replaced without having to dismantle the whole structure."

David Taylor

Reaction to fire: a test on wall lining materials — Picture: BRE

Environmental impact: by Elaine Knutt

Energy's real costs

Research is often contradictory because guidance standards are lacking

Organisations investing in new buildings are increasingly aware that going green pays dividends – both in terms of public relations and reduced energy bills. But not all companies commissioning new buildings are aware that the finished scheme's reduced running costs and certificate of environmental friendliness do not tell the whole story. Divide a building into its component parts and examine the materials' history, and you enter a whole new debate.

One key issue is "embodied energy", a shorthand term covering the energy consumed in the production, manufacture, use and disposal of any construction material. To achieve maximum points for saving the planet, buildings should not only have higher insulation and lower appetites for energy, but contain materials that leave a minimal legacy of environmental damage. However, the problem is that these two concerns do not always coincide.

For example, the energy saved over a building's lifetime by installing double glazing units may have been bought at the price of the extra CO_2 released into the atmosphere during the manufacture of the PVC frame.

But if timber is used as a more environmentally acceptable alternative, what about the energy expended on importing it into the UK – since 95 per cent of timber used in construction is non-indigenous – and what about the environmental cost associated with renewing the wooden frames long before the PVC equivalent would need replacement? "It's a very difficult area, full of contradictions and paradoxes," says Mr David Turrent, an architect and director of the Energy Conscious Design Partnership.

To date, the construction industry has paid more attention to the environmental impact of the finished building rather than its embodied energy content, a fact reinforced by the industry's standard environmental rating system.

BREEAM, the voluntary environmental assessment method, administered by the DoE's Building Research Establishment and now widely taken up in the office sector, concentrates, in assessing impact on the environment, more on energy and water conservation, the avoidance of obviously hazardous materials and the use of recycled products than on the examination of the materials' supply chain.

But although embodied energy was once seen as unimportant compared to the energy a building consumed in its lifetime, it is now recognised that once a building undergoes a series of refits, the energy consumed by its materials can be environmentally significant.

According to Mr Lawrence Waterman, managing director of Aylesbury-based consultant Sypol Environmental Management, clients and designers are only just getting to grips with these "material" issues.

"In the past few years, major companies have become good at making sound decisions on energy management in their buildings. But with the exception of tropical hardwoods like mahogany, very few people are looking at the cradle-to-grave impact of the materials," he says. "Environmental measures like moving away from air-conditioning in favour of natural ventilation have now become fairly mature. Hopefully, a similar maturity will develop in the selection of materials in the next five or six years."

For designers who do want to make informed choices on specifying materials on embodied energy criteria, research and guidance are often inconclusive and contradictory, because no standard assessment methods have been devised. Rival reports have estimated the energy embodied in steel at 16 gigajoules/tonne to 50 gigajoules/tonne, while timber figures have ranged from 0.5 to 7 gigajoules/tonne.

"There's plenty of research from the various trade associations, but their findings tend to be drowned out by the noise of axes being ground," says Mr Waterman.

The organisation with the most advanced understanding of the area is probably the consultancy arm of quantity surveyor Davis Langdon and Everest, which has pulled together research from different sources into its own database.

Mr John Connaughton, a partner, believes that "broadly speaking, a consensus is possible" on calculating a building's embodied energy content, but he still sees little interest in the subject from the DoE and architects and little prospect of reliable guidelines in the near future.

In the meantime, Mr Connaughton believes that environmentally conscious designers ought to be reducing their use of energy-guzzling, CO_2-emitting materials such as steel, aluminium and glass, and opting instead for brick and timber buildings with smaller-than-average glazed areas.

As for cement, its low-energy rating can be reduced further by using recycled concrete waste as the raw material, an environmental boon in the face of growing resistance to sand and gravel quarries. But if that concrete then has to be reinforced with steel rods, its embodied energy level shoots up and the environmental benefit is annulled.

One area where matters are clearer is the timber industry, where a certification scheme for timber for environmentally sustainable forests does exist and has been signed up to by around 40 British housebuilders, contractors and DIY chains.

The scheme, from the Friends of the Earth-backed Forestry Stewardship Council, sets high standards for forestry management and tree replacement programmes and also assesses the energy impact along the supply chain before the resulting timber can be labelled as FSC-approved.

"The FSC logos are a very new initiative, but we're cautiously optimistic," said FOE campaigner Ms Sarah Tyack. However, the scheme has drawn criticism for setting such strict rules that demand for cannot be met and FSC-stamped timber will only be available at a price premium.

Elaine Knutt is a senior reporter on Building magazine